

AR22

THE SUPERIOR OIL COMPANY



1977 ANNUAL REPORT

THE SUPERIOR OIL COMPANY



C O N T E N T S

HIGHLIGHTS 1

PRESIDENT'S REPORT 2

FINANCIAL 14

FIVE-YEAR SUMMARY 35

OFFICERS AND DIRECTORS 40

THE SUPERIOR OIL COMPANY

Highlights*For the Years Ended December 31, 1977 and 1976*

	1977	1976		
FINANCIAL				
Income before extraordinary items	\$ 62,540,000	\$ 50,397,000		
Equity in extraordinary items of affiliated company	—	1,047,000		
Net income	62,540,000	51,444,000		
Earnings per average share outstanding				
Income before extraordinary items	15.63	12.58		
Extraordinary items	—	.26		
Net income	15.63	12.84		
Operating revenues	545,166,000	441,461,000		
OPERATING				
Crude oil — gross production (barrels per day)	75,712	76,940		
Natural gas liquids — gross production (barrels per day)	17,939	16,704		
Natural gas — gross sales (thousands of cubic feet per day)	1,016,604	975,962		
Employees at year-end	3,549	3,210		
Wells drilled				
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Exploratory				
Productive	56	24	73	36
Abandoned	67	23	82	30
Development				
Productive	270	81	298	98
Abandoned	22	12	12	9
Total	415	140	465	173

To the Shareholders

The Company's consolidated net income for 1977 was \$62.5 million, \$15.63 per share, compared with \$51.4 million, \$12.84 per share, in 1976. Included in 1976 net income is an extraordinary item of \$1.0 million, \$0.26 per share, which represents the Company's equity in an extraordinary item of McIntyre Mines Limited, an affiliated company.

During 1977 the Company sold its remaining 949,072 shares of Texaco Inc. capital stock, realizing a \$9.3 million gain; there were no sales of Texaco Inc. stock in 1976. For an analysis of the variations in the other major items of consolidated income and expense, refer to Management's Analysis and Discussion of the Consolidated Statement of Income on pages 32 through 34 of this report.

Consolidated net income for the three months ended December 31, 1977 was \$5.1 million, \$1.28 per share, compared with \$6.8 million, \$1.69 per share, for the same period in 1976. Included in fourth quarter earnings for 1976 is the previously mentioned extraordinary item.

On December 5, 1977, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies." Under Statement No. 19, the Company is required to change some of its accounting policies, effective initially for fiscal years beginning after December 15, 1978, but with retroactive application in that financial statements for prior periods must be restated to reflect such changes. The most significant change in accounting policies affecting the Company is the required capitalization of intangible drilling and development costs on a "successful efforts" basis; the Company has always expensed such costs in the year incurred. Another material change in accounting policy is the requirement that the amount of any impairment in the cost of a nonproductive lease be charged to expense in the year in which such impairment is sustained; the existing general policy of the Company is to charge

the entire costs of a nonproductive lease to expense in the year in which the lease expires or is surrendered. None of the changes required by Statement No. 19 have been made in the Company's financial statements, but it is estimated that the effect of such changes would be to increase retained earnings at December 31, 1977 by approximately 15 percent to 18 percent and would increase net income for the years ended December 31, 1977 and 1976 by 29 percent to 35 percent and 17 percent to 20 percent, respectively.

LONG TERM DEBT

In December 1977 the Company borrowed \$20.0 million from a bank evidenced by a demand note, which was refinanced in March 1978, by the execution of a Term Loan Agreement, pursuant to which said \$20.0 million will be repayable in nine substantially equal semiannual installments beginning on September 1, 1983. The total consolidated long-term debt at December 31, 1977, including the foregoing amount, was \$85.0 million.

PRODUCTION AND SALES FOR 1977

Consolidated

All consolidated average daily production and sales statistics are shown on a gross basis since provincial government royalties on Canadian production are determined by applying a graduated percentage scale to gross sales proceeds. Consolidated average daily gross production of crude oil and condensate in 1977 decreased 1.6 percent from 1976. Consolidated average daily gross sales of natural gas and consolidated average daily gross production of natural gas liquids increased 4.2 percent and 7.4 percent from 1976, respectively.

Excluding Canadian Superior

Average daily net crude oil and condensate produced by the Company and its wholly owned subsidiaries decreased 2.5 percent from 41,264 barrels in 1976 to 40,224 barrels in 1977,

compared to a 5.4 percent decrease from 1975 to 1976. The decrease is principally due to the natural decline of producing fields in Texas and offshore Louisiana, partially offset by increases in new developmental production in Louisiana and Utah. Revenues from the sale of crude oil and condensate increased by \$7.1 million in 1977 due to new production and price increases. The Company realized an average price for domestic crude of \$7.81 per barrel, an increase from 1976 of 70 cents per barrel.

Natural gas processed or sold by the Company and its wholly owned subsidiaries increased 5.9 percent from 795,647 Mcf per day in 1976 to 842,539 Mcf per day in 1977, compared to a decrease of 7.4 percent from 1975 to 1976. The increase is primarily due to new production in onshore and offshore areas of Louisiana, partially offset by the natural decline of producing fields in Texas. Revenue, net of royalty payments, attributable to natural gas processed or sold increased \$55.9 million, primarily due to upward price redeterminations in certain intrastate sales contracts and increased prices for certain interstate gas sales. During 1977 approximately 25 percent of domestic gas produced was sold in intrastate markets.

Average daily gross natural gas liquids produced by the Company and its wholly owned subsidiaries increased from 10,615 barrels in 1976 to 12,153 barrels in 1977.

NATURAL GAS SALES SUBJECT TO REFUND

Included in the Company's consolidated balance sheet at December 31, 1976, as a current liability was the amount of \$30,692,000 as Natural Gas Sales Subject to Refund. Please refer to the 1976 Annual Report for a summary of the lengthy and complex administrative and judicial proceedings with respect to this matter. Pursuant to an order from the Federal Energy Regulatory Commission (FERC), the successor to the Federal Power Commission, to refund to gas purchasers by October 31, 1977, the

entire amount of the refund obligation, the Company actually refunded to certain purchasers approximately \$2.1 million. Agreements were negotiated with the other gas purchasers providing for a credit against the remaining refund obligation in amounts equivalent to 40 percent of future exploration and development expenditures in specified offshore areas in consideration for the dedication to such purchasers of any new gas discoveries in the areas. In order to be effective, such agreements must be approved by FERC and all necessary filings for this purpose have been made. If these agreements are approved by FERC, the Company will be in the position to discharge its remaining refund obligations by conducting exploratory and development activities for new supplies of natural gas sorely needed for the interstate market. If such agreements are not approved, the Company will be required to refund to the gas purchasers its remaining obligation, which at December 31, 1977, amounted to \$30.1 million, including accrued interest of \$16.2 million.

PRICE CONTROLS

The oil and gas industry continues to cope with various and complex Federal controls on prices of natural gas sold in interstate commerce, crude oil and condensate and natural gas liquids. Interstate gas sales have been subject to regulation for over twenty years. Although there has been gradual recognition at both administrative and judicial levels in recent years of the absolute necessity of increased gas prices for interstate sales, the nation still faces the bleak prospect of inadequate future gas supplies. In order to provide adequate incentives to those private entities engaged in efforts to alleviate this problem, it is essential that legislation decontrolling natural gas prices be enacted promptly. The most recent judicial recognition of an increased price structure is evidenced by the United States Supreme Court's denial on February 27, 1978, of petitions for certiorari for the review

of a decision by the District of Columbia Court of Appeals which upheld FPC Opinions 770 and 770-A. The highest price permitted under these Opinions presently is \$1.48 per Mcf (including applicable escalations) for sales of gas from wells drilled after January 1, 1975. It should be noted that FPC Opinion No. 749 limits the price to 29.5 cents per Mcf for wells which were drilled and from which sales commenced prior to January 1, 1973. Crude oil, condensate and natural gas liquids sales continue to be restricted by applicable controls to prices below market levels. Maintaining these controls effectively limits the ability of producers to develop to the maximum extent the nation's domestic resources. Such controls represent a formidable roadblock to the solution of the problem of increasing imports of these products which magnify the deficit in our balance of payments and the erosion of the dollar in the world markets. In view of the increasing severity of these problems, the controlled pricing of upper-tier oil (that produced from new properties after 1975 and produced from older properties above certain base levels) to values less than those allowed on September 30, 1975, appears to be completely unrealistic. Further, the price of lower-tier oil, that produced from properties in production before 1976, was limited to an industry-wide average price in 1977 of \$5.12 per barrel.

OIL AND GAS ACTIVITIES

In recognition of the necessity for the discovery and development of domestic oil and gas reserves and the expectation that a more realistic and equitable pricing structure for oil and gas production will evolve, the Company substantially increased its exploratory and development activities and commitments during 1977, primarily in the United States. Total capital expenditures, including geological and geophysical expenses and intangible development costs, incurred by Superior and its wholly owned subsidiaries in 1977 were approximately \$223 million, consisting of \$111 million in

exploration costs and \$112 million in development costs. Comparable figures for 1976 were \$62 million in exploration costs and \$66 million in development costs, a total of \$128 million. It is anticipated that for 1978 total development capital expenditures could approach \$200 million and that exploratory capital expenditures, exclusive of offshore lease acquisition costs, will be approximately \$100 million.

DOMESTIC EXPLORATION

As indicated above, the Company's domestic exploration program was substantially accelerated in 1977 with major lease acquisitions in various areas together with an aggressive seismic and wildcat drilling program.

In the Gulf of Mexico Federal lease sale held on June 23, 1977 the Company acquired interests in eight tracts for \$36.0 million. The entire working interest was acquired in two tracts, West Cameron Blocks 106 and 107, for bonuses of \$1.2 million and \$24.1 million, respectively. Superior's working interests in the other tracts range from 20 percent to 31 percent.

Hydrocarbons were encountered in the drilling of initial wildcat wells on West Cameron Block 498, Vermilion Block 58 and Vermilion Block 73, offshore Louisiana, all three of which were acquired in the Federal lease sale referred to above. Additional drilling will be required to assess the significance of these discoveries. Superior's share of the bonuses paid for these three tracts was \$4.7 million for West Cameron Block 498, \$2.8 million for Vermilion Block 58 and \$0.7 million for Vermilion Block 73.

Two successful exploratory wells were drilled on West Cameron Block 264, offshore Louisiana, which was acquired in a Federal lease sale in November 1976. Engineering studies have commenced to determine the feasibility of development. Superior has a 50 percent working interest in the block and is the operator. Superior acquired a 25 percent working interest in portions of South Marsh Island Blocks 234

and 235, offshore Louisiana, by participating as operator in the costs of drilling a gas discovery well.

The Company acquired a 66 $\frac{2}{3}$ percent working interest in Matagorda Island Block 483-L, offshore Texas, through the drilling of a gas discovery well. A second well on the block was dry.

Superior participated in two University of Texas land lease sales during the year. At the April 7, 1977 sale, 19 tracts covering 6,226 acres were purchased for a total consideration of \$1.1

million. At the December 7, 1977 sale, 13 tracts encompassing 3,990 acres were purchased for an aggregate bonus of \$493,000.

In Eddy County, New Mexico, Superior has a 17 percent working interest in a gas discovery well, the Hanagan #1 North Horseshoe Bend. This well is presently shut-in, pending the completion of gas contract negotiations and the necessary pipeline connection.

Several large land transactions in the Rocky Mountain Area were consummated during 1977. In northern Montana, Superior acquired



The B.T. Broussard No. 1 well with gas condensate separating facilities in the Kaplan Field, Vermilion Parish, Louisiana.

a net interest of approximately 30,000 acres in 142,000 gross acres from Rainbow Resources for a consideration of \$1.3 million. Superior will bear its proportionate share of a \$4.0 million drilling, seismic and lease acquisition program. The seismic program began in early January and three wells are planned for 1978.

In southeastern Montana, North Dakota, Wyoming and Utah, Superior acquired a 75 percent interest in 189,000 gross acres for \$4.5 million and committed to a \$2.8 million obligation involving seismic and drilling programs. The seismic program began in late 1977 and it is anticipated that the first well will be drilled in the second quarter of 1978.

In the Powder River Basin of Wyoming, Superior acquired a net interest of 45,000 acres for a consideration of \$1.8 million. Superior's

interest in the total acreage ranges from 12.5 percent to 50 percent. Two successful wildcat wells involving the acreage were completed in 1977 and a third wildcat well encountered oil shows.

In Nebraska, Superior acquired a 25 percent interest in 250,000 gross acres for a consideration of \$310,000. Superior has borne its proportionate share of the costs of a 100-mile seismic program and the drilling of two exploratory wells, both of which were dry. Preparations are being made to drill a third well.

DOMESTIC DEVELOPMENT

The major portion of expenditures for domestic development drilling in 1977 was incurred in South Louisiana, both onshore and offshore.

Following the completion in 1976 of a gas discovery well in the Kaplan Field, Vermilion Parish, two development wells have been completed, confirming the existence of significant gas reserves. In early 1977 Superior purchased an additional working interest of about 3 percent in all of its leases in this field and now owns a 53 percent working interest in the leases. Further development drilling is scheduled in 1978.

Due to past extensive development, average daily production from the Bayou Penchant Field, Terrebonne Parish, increased substantially in 1977. An additional gas well was completed in this field during the year and additional development drilling is anticipated. The Company's working interest in most of the productive wells is 100 percent.

In the Four Isle Dome Field, Terrebonne Parish, two wells were completed, one as an oil producer and the other as a gas producer completed in two zones. Superior has a 100 percent working interest in both wells. Two additional wells in this field were drilling at year-end and further development is planned for 1978.

Three of the wells have been completed as gas producers in the Lac Blanc Field, Vermilion



Jackup drilling rig on location, West Cameron Block 71 Field, well OCS-0244 #17, offshore Louisiana. Production structure No. 13 in background.

Parish. Superior has a 100 percent working interest in two of the wells and a 78.8 percent working interest in the other. An excellent gas well, in which Superior has a 49.5 percent working interest, was completed in the Bayou Rambio Field, Terrebonne Parish.

Other successful onshore development wells in Louisiana were completed in the Deep Lake Field, Cameron Parish; Kent Bayou Field, Terrebonne Parish; S. E. Gueydan Field, Vermilion Parish and Bosco Field, Acadia Parish. In addition to the development drilling, an extensive workover and recompletion program was conducted in several South Louisiana fields which resulted in increased production from older wells.

In the West Cameron Block 71 Field, offshore Louisiana, six development wells were drilled.



Monte Von Rosenberg No. 2 Edwards limestone discovery well, North Word Field, Lavaca County, Texas. Well No. 3 drilling in background.

One well was completed as a gas well, four wells will be completed as gas wells during the first quarter of 1978 and one well was abandoned. Two additional wells are presently drilling in the field. Production Platform No. 7 was placed on line in July 1977 with production from previously drilled wells and has made a significant contribution to increased gas sales from the field. Superior has a 100 percent working interest in the field.

Seven wells were drilled in the South Marsh Island Block 243 Field, offshore Louisiana, four of which were gas producers and three of which were abandoned. Production from these gas wells is expected to commence during July 1978, following installation of production facilities and pipeline availability. Production Platform "A" in this field was placed on production in August 1977 with four previously drilled gas wells. Additional development of this field, in which Superior has a 38 percent working interest, is planned for 1978.

Eight successful gas development wells were completed in the Eugene Island Block 306 Field, offshore Louisiana, increasing production from the field. Superior's working interest in the field is 20.99 percent. In addition, an extensive workover and redrilling program was completed in the Eugene Island Block 296 Field, in which Superior has a working interest of 18.75 percent.

Other successful offshore Louisiana development wells were drilled in Eugene Island Block 100 Field (oil), 90.5 percent working interest, and Vermilion Block 182 Field, 25.12 percent working interest.

In onshore Texas Gulf Coast area a gas discovery well in the North Word Field, Lavaca County, was completed in March 1977. One development well has been completed as a producer and another well was in progress at year-end. An acid gas treating plant with a daily capacity of 40 million cubic feet of gas was designed and installed in the field to meet the quality specifications of the gas sales contract.

The facility was completed and placed in operation the latter part of December 1977 and is presently handling 4.5 million cubic feet of gas per day. Superior owns a 100 percent working interest in these wells.

Development continued in the M. B. Traylor Field, Jackson and Calhoun Counties, with the completion of five gas and gas condensate wells. Superior has a 100 percent working interest in this field.

The more significant development drilling activities in West Texas during the year were in the War-Wink, South (Wolfcamp) Field, Ward County (Superior owns a 100 percent working interest) and the Gomez Field, Pecos County (Superior owns a 25 percent working interest). Both fields are producing gas from a Wolfcamp formation and several additional wells are planned for 1978.

Development drilling continued in the Matagorda Island area, offshore Texas, with two gas completions on State Block 582-S. Superior has a 100 percent working interest in these wells. Two drilling and production platforms were installed on the High Island Blocks 342 and 343 and the first well of a seventeen-well program was drilled. A pipeline is being constructed to the platforms and gas sales are expected to commence by mid-year.

Other offshore Texas development activities in which the Company participated were two gas wells in High Island Blocks 110 and 111 (Superior working interests 1.5 percent and 3.0 percent, respectively), and nine gas wells in High Island Block 323 (Superior working interest 3.0 percent).

Three oil development wells were drilled in the Illinois Basin area and a fourth was deepened to another production horizon. Superior owns a 100 percent working interest in three of the wells and a 71 percent working interest in the other well. In addition, an active workover program was conducted to maximize production in the area. Further development is

planned during 1978. Such activities are indicative of the Company's efforts to increase production in its more mature producing areas.

The infill development drilling program in the McElmo Creek Unit, San Juan County, Utah was completed in 1977, and oil production has increased substantially. Forty-six wells were drilled during the year bringing the total infill drilling to 75 wells. Additional development work is continuing in order to optimize the recovery of oil from this unit. Superior's working interest is 36.5 percent. In the adjacent Aneth Unit (Superior 8.6 percent working interest) and White Mesa Unit (Superior 10.0 percent working interest), eighteen infill oil wells were completed and additional wells are being drilled.

NORTH SEA AREA

Superior Overseas Development Company, Ltd., a wholly owned subsidiary, and other licensees in the Arpet Group's License P.188 farmed out 50 percent of their interests in Block 30/23 located in United Kingdom waters. The farmee drilled an exploratory well at no cost to the subsidiary and failed to log any significant shows of hydrocarbons. This well satisfies the five-well commitment of the license. Superior now owns a 12.5 percent working interest in Block 30/23 and a 25 percent working interest in the remaining blocks of the license.

Norwegian Superior Oil Company, wholly owned by the Company, conducted extensive geological and geophysical evaluation of portions of the Norwegian North Sea in anticipation of the fourth round of bidding for licenses expected to occur in the first half of 1978.

Licensees in Netherlands Blocks K-9 and K-12 jointly commenced a Rotliegendes sandstone test late in the year. The well is located in Block K-12 near its common boundary with Block K-9. Purpose of the test is to aid in the delineation of the Rotliegendes gas reservoir. Each of the two prior exploratory wells in

Block K-12 tested gas flow rates in excess of 20 million cubic feet per day. Netherlands North Sea Superior Oil, Ltd., a wholly owned subsidiary, has a 10 percent working interest in Block K-12.

PAPUA NEW GUINEA

Another company continued its active exploration program in the Gulf of Papua area on a farm-out from Australian Superior Oil Company, Ltd., a wholly owned subsidiary, and other licensees of permits covering approximately 5,000 square miles. The farmee drilled an unsuccessful offshore exploratory well to 11,265 feet to test the Mesozoic at no cost to Australian Superior. The farmee also conducted an onshore seismic survey and plans to drill an exploratory well in 1978 free of cost to the subsidiary. Areas around the offshore Uramu and Pasca gas discovery wells, covering 700 square miles, were excluded from the above farm-out. Australian Superior and its partners will complete an economic feasibility study during 1978 for commercial development of the gas reserves. Australian Superior has a 7.5 percent interest in the farm-out acreage and a 15 percent interest in the excluded acreage.

MIDDLE EAST

Superior has an option to acquire all of the outstanding shares of Neptune Oil Company, Inc. Neptune has a contract with the Israel National Oil Company, Ltd. to conduct petroleum operations in the Gulf of Suez, a portion of the territory held and administered by Israeli defense forces since 1967. Neptune's interests are subject to well-known political uncertainties in the region. The contract provides for recovery of expenditures out of a portion, not in excess of 60 percent, of any proceeds from oil produced and Neptune is entitled to 25 percent of the remaining proceeds from oil produced.

The option was earned without further consideration by Superior providing funds for

drilling two exploratory wells. Superior has provided a portion of the funds for drilling two additional exploratory wells, the last of which was completed after drilling to 6,767 feet and encountered hydrocarbons in quantities that are believed to be commercial. A development well was drilled and completed and another development well is now in progress. Financing for the development wells was provided to Neptune through nonrecourse financing.

Tests of the two completed wells indicate initial rates of production totalling 10,000 barrels per day and production could commence during the first half of 1978.

Other parties participated in 7½ percent of Neptune's rights and costs in the discovery area and may participate in up to 15 percent of Neptune's rights in the remainder of the contract area with the obligation to bear a corresponding portion of the cost. Of the funds advanced by Superior, \$22 million has been expensed in its 1977 income statement and another \$8 million in pipe and other materials is expected to be recovered.

The extent of further exploration and development in the area has not been determined.

CANADIAN SUPERIOR OIL LTD.

Net income (in Canadian dollars) increased from \$38.4 million, or \$4.49 per share, in 1976 to \$55.1 million, or \$6.44 per share, in 1977. Higher prices for crude oil and natural gas resulted in a revenue increase of \$30.8 million, bringing the total to \$178.3 million in 1977.

Production of crude oil and natural gas liquids declined marginally to 34,244 barrels per day. Higher prices increased revenue to \$89.6 million, up 16 percent from the previous year. Sales volumes of natural gas declined 7 percent from 1976 to 219 million cubic feet per day. This decrease is a result of a gas surplus situation in Alberta. Higher gas prices, however, brought revenue from this source to \$75.8 million; an increase of 20 percent from the previous year. Sulphur sales averaged 640 long

tons per day compared to 420 long tons per day in 1976. Despite slightly lower average prices, sulphur revenue increased 38 percent to \$3.3 million.

Canadian Superior's exploration and development program in Canada during 1977 was concentrated in the Foothills and Deep Basin areas of west central Alberta and northeastern British Columbia. Although drilling was curtailed to some extent by the limited availability of rigs, geophysical activities reached an all time high. Participation in international activities continued during the year with further acquisition of interests in the Dominican Republic, Australia, the Philippines and the United States. Exploration and drilling expenditures totaled \$48.1 million compared to \$41.1 million during 1976. Lease acquisition costs totaled \$30.7 million, higher than the previous three years combined.

In December 1977, Canadian Superior made an offer for all of the 7,766,461 outstanding shares and stock options of Alminex Limited, a Canadian oil and gas exploration and production company whose activities complement those of Canadian Superior. The offer consisted of cash of \$7.00 plus one thirteenth of a share of Canadian Superior for each share of Alminex. By December 31, 1977, Canadian Superior had acquired 65.3 percent of the outstanding shares of Alminex; such percentage had increased to 93.7 percent at March 9, 1978. It is expected that Canadian Superior will acquire all of the remaining shares of Alminex within the next few months.

The Company owns 4,556,760 shares of common stock of Canadian Superior, or 50.9 percent of the 8,943,796 shares issued and outstanding at December 31, 1977.

McINTYRE MINES LIMITED

In 1977 earnings from McIntyre's operations, expressed in Canadian dollars, were \$9,023,000 before provision for deferred income taxes,

compared with \$13,841,000 for the prior year. After tax earnings before nonrecurring items were \$6,103,000 in 1977 and \$10,815,000 in 1976. Nonrecurring items in 1977 were a charge against earnings of \$3,003,000 resulting from a write-down in the coal inventory on hand at year's end from realizable value to cost, a charge against earnings of \$13,450,000 resulting from writedowns of investments in affiliated companies and a credit to earnings of \$7,535,000 representing the Company's equity in the gain on sale of an investment by an affiliate. The nonrecurring item in 1976 was a credit to earnings of \$2,741,000 resulting from the application of prior years' losses to taxable income. The consolidated loss of the Company in 1977, including its equity in the losses of its affiliated companies Falconbridge Nickel Mines Limited and Madeleine Mines Limited, and the nonrecurring loss referred to above was \$15,414,000 or \$6.51 per share compared with earnings of \$16,164,000 or \$6.82 per share for 1976.

Earnings from operations in 1977 were below those of 1976 despite higher coal prices and a significant reduction in operating costs. Adverse factors were higher rail freight charges and coal royalties, increased exploration costs, and loss of dividend income from the Company's affiliates. The coal division earned \$12,264,000 in 1977 compared with \$14,268,000 in 1976. Dividend income for the two years was \$924,000 and \$2,448,000, respectively. Corporate administrative and exploration expenses were \$863,000 and \$3,222,000, respectively in 1977 compared with \$1,132,000 and \$1,690,000 for 1976. Capital expenditures in 1977 included outlays for open pit and underground mining equipment and maintenance facilities and advance waste removal at No. 9 surface mine totaling \$21,055,000, compared with \$17,805,000 for 1976. All major mine and plant units at Smoky River are now equipped for capacity production and additional expenditures will be primarily for unit replacements and major maintenance. The 1978 capital budget totals \$5.2 million of which \$1.2 million will

be expended on advance waste removal at No. 9 mine.

During the year the Company received the approval from the Alberta Energy Resource Conservation Board of its application for an extension of the No. 9 mine covering approximately 62.5 million raw long tons of recoverable coal.

The Madeleine Mine Ltd. operation in Quebec was suspended in January 1977 and the mine and plant were maintained on a standby basis throughout the year. The company sustained a cash loss of \$533,000 in 1977 largely due to employee severance payments, power supply contract minimum charges and maintenance expense. Working capital on December 31, 1977 was \$2,496,000 consisting chiefly of cash and short-term investments.

MINING

Exploration programs for base and precious metals were continued in the United States and various foreign countries by Superior and certain of its affiliated Canadian companies. Efforts have been principally concentrated in the western United States, Maine, the Great Lakes region, Canada and Chile.

The Delamar Silver Mine in Owyhee County, Idaho, in which the Company owns 23.75 percent, completed pre-production stripping and stockpiling of ore and the plant went into production during the last half of April 1977. The ore grade has measured up to expectations, but mill tonnage rates and recoveries have been low due to numerous start-up problems experienced in the plant. New cyclones are currently being installed that will facilitate grinding and increase the recovery. It is anticipated that mill feed rates of 1,700 tons per day and improved recoveries will be achieved by mid-year.

On October 21, 1977, the Company and The Louisiana Land and Exploration Company announced that their jointly controlled mineral project in northern Maine has completed three

holes which encountered significant copper, zinc, gold, and silver mineralization. Several additional holes have been completed in the vicinity of this mineralization which confirmed the presence and grade of a potentially economic sulfide deposit. Drilling is continuing and metallurgical testing of the ore commenced during the first quarter of 1978. The two companies are bearing the costs of this project equally.

Superior, Canadian Superior, Falconbridge and McIntyre entered into a foreign investment agreement with Chile authorizing the exploration, prospecting and development of certain mining claims in Northern Chile known as Quebrada Blanca. Drilling commenced at Quebrada Blanca on October 10, 1977 and has encountered encouraging mineralization. Additional drilling was in progress at the end of the year and will continue during 1978.

OIL SHALE

The Company continues to evaluate the economic potential of its oil shale and associated minerals deposit in Rio Blanco County, Colorado. Although pilot testing of the potential multi-mineral oil shale process, exclusive of the mining step, has been substantially completed with positive results, there are various other factors which must be considered in assessing the economic feasibility of such a high capital intensive project. Among them is the delay of Government officials in completing the work they consider necessary to approve the Company's application for an exchange of land between the Company and the Government.

AGRICULTURE

The year 1977 was a significant one in the growth of Superior Farming Company, a wholly owned subsidiary of the Company. A precooling and cold storage plant was completed in Coachella, California and all of the subsidiary's grape production in this area was processed in this plant. The subsidiary acquired full ownership of Superior Packing Company in Fresno,

California by the purchase of the remaining stock from the other stockholders. Most of the subsidiary's production of plums, peaches, nectarines and apricots in the San Joaquin Valley was packed and shipped through the Superior Packing Company facilities under the "Premium SF" and "Clo-Cal" labels to markets in the United States and Canada.

As more of Superior Farming's developmental crops reached maturity during the year, the acreage in commercial crops increased to 73 percent of the total acreage owned. Two serious circumstances prevented the farming activities from becoming profitable in 1977. The first was the worst drought recorded in the history of California. This necessitated increased water pumping, which accompanied by higher power rates, resulted in total irrigation costs for the year exceeding well over \$1.0 million of normal costs. The second event was a most unusual rain in August which destroyed most of the California dried fig crop. Superior Farming is a

principal producer of dried figs and lost approximately 94 percent of its expected crop due to the resulting mold on the fruit, thereby sustaining a revenue loss of approximately \$1.0 million.

ACQUISITION OF AUSTRAL ASSETS

In September 1977, the Company and Austral Oil Company Incorporated agreed in principle to the acquisition by the Company of substantially all of Austral's assets for cash. On March 10, 1978, the parties executed a definitive agreement with respect thereto. The consummation of the sale of assets to the Company is contingent upon the adoption of a plan of complete liquidation of Austral by its stockholders at a Special Meeting to be held on March 30, 1978. If this plan is adopted by Austral's stockholders, it is expected that the initial closing of such sale will be effected on March 31, 1978.

Under the agreement, the Company will purchase all of Austral's domestic producing and



Inside view of Superior Packing Company, Fresno, California.

non-producing oil and gas properties and all of the stock of its wholly owned subsidiary, Austral Petroleum Gas Corporation (APG), a participant in a joint venture engaged in the exploration and development of oil and gas properties in Indonesia, for a total cash consideration of \$170.1 million, subject to certain adjustments. The purchase price will be increased by an amount equal to (1) interest at the prime rate on \$164.3 million from December 15, 1977, to the initial closing date, (2) costs incurred and paid by Austral subsequent to September 30, 1977, with respect to the domestic oil and gas properties, (3) a fixed amount in lieu of general and administrative expenses relating to Austral's Houston offices from October 1, 1977, to the initial closing date, (4) all advances made by Austral to APG after September 30, 1977, and (5) certain prepaid items. The purchase price will be decreased by (1) most production revenues and other amounts received by Austral after September 30, 1977, with respect to the domestic oil and gas properties and (2) any repayments by APG after September 30, 1977, of inter-company accounts owed to Austral.

Approximately \$120,000,000 of the funds required by Superior for the acquisition of Austral assets will be borrowed from two groups of commercial banks on a nonrecourse basis to Superior. Such borrowings will be secured by the newly-acquired assets of Austral, and substantially all of the revenues from the domestic oil and gas properties and the Indonesian operations will be dedicated to repay such loans. In connection with the liquidation of Austral, it is estimated that the Company will receive distributions on its remaining Austral stock of between approximately \$30.6 million and \$32.3 million.

For some time Superior had owned 863,000 shares of the stock of Austral and a warrant to purchase 240,000 additional shares of stock at \$25 per share. On March 10, 1978, the Company sold the warrant and 25,000 shares of the Austral stock in a private placement in order

to qualify the sale of Austral's assets to Superior for favorable Federal income tax treatment. The Company realized \$3.3 million from this sale. After closing, the Company will receive \$795,000 to compensate it for selling these securities at a discount below the anticipated total liquidating distributions thereon.

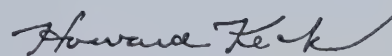
PERSONNEL

The total personnel employed by the Company and its consolidated subsidiaries at December 31, 1977 increased by 339 from that of the prior year. Summary of the changes is as follows:

	December 31,		
	1977	1976	Increase
The Superior Oil Company	1,978	1,867	111
Superior Farming Company	1,097	903	194
Canadian Superior Oil Ltd.	474	440	34
	<u>3,549</u>	<u>3,210</u>	<u>339</u>

The primary reason for the higher number of employees of Superior is the substantially increased exploration and development efforts undertaken during the year.

In July 1977, Mr. John E. Kolb was elected to the Board of Directors. Mr. W. K. Clark and Mr. A. E. Feldmeyer resigned from the Board in December 1977 and January 1978, respectively. Subsequently, Mr. O. P. Thomas and Mr. Arne R. Nielsen were elected to the Board to fill the vacancies created by the resignations of Messrs. Clark and Feldmeyer. Mr. L. R. Ayers was elected Vice President — Employee Relations.



President

March 21, 1978

Consolidated Statement of Income*For the Years Ended December 31, 1977 and 1976*

	1977	1976
OPERATING REVENUES	\$545,166,000	\$441,461,000
OPERATING EXPENSES		
Operating costs	103,961,000	86,252,000
Geological and geophysical	52,964,000	29,158,000
Intangible drilling and development costs	126,859,000	101,128,000
Nonproductive leases and other properties abandoned	6,315,000	15,684,000
Depletion, depreciation and amortization	40,081,000	36,272,000
General and administrative	33,706,000	26,174,000
Loss on foreign currency translation	3,567,000	494,000
Taxes (other than income)	23,449,000	21,531,000
	<u>390,902,000</u>	<u>316,693,000</u>
INCOME FROM OPERATIONS	<u>154,264,000</u>	<u>124,768,000</u>
OTHER INCOME (EXPENSE)		
Dividends and miscellaneous income	9,001,000	9,505,000
Gain on sale of 949,072 shares of Texaco stock (Note 2)	9,325,000	—
Equity in earnings (losses) of affiliated companies (Note 2)	(9,953,000)	4,199,000
Interest expense	(7,452,000)	(10,045,000)
	<u>921,000</u>	<u>3,659,000</u>
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	<u>155,185,000</u>	<u>128,427,000</u>
Income taxes (Note 6)	(72,605,000)	(59,533,000)
Minority interest in subsidiaries	(20,040,000)	(18,497,000)
INCOME BEFORE EXTRAORDINARY ITEMS	<u>62,540,000</u>	<u>50,397,000</u>
EXTRAORDINARY ITEMS		
Equity in extraordinary items of affiliated company (net of \$55,000 minority interest) (Note 2)	<u>—</u>	<u>1,047,000</u>
NET INCOME	<u>\$ 62,540,000</u>	<u>\$ 51,444,000</u>
EARNINGS PER AVERAGE SHARE OUTSTANDING		
Income before extraordinary items	\$ 15.63	\$ 12.58
Extraordinary items	<u>—</u>	<u>.26</u>
Net income	<u>\$ 15.63</u>	<u>\$ 12.84</u>

The accompanying summary and notes are an integral part of the financial statements.

Consolidated Statements of Retained Earnings and Additional Paid-In Capital

For the Years Ended December 31, 1977 and 1976

	1977	1976
RETAINED EARNINGS		
Balance at beginning of year	\$610,546,000	\$566,314,000
Net income	62,540,000	51,444,000
Cash dividends paid on common stock, \$1.90 and \$1.80 per share in 1977 and 1976, respectively	<u>(7,602,000)</u>	<u>(7,212,000)</u>
Balance at end of year (Note 3)	<u>\$665,484,000</u>	<u>\$610,546,000</u>
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	\$ 1,676,000	\$ 1,639,000
Excess of cost of treasury stock issued over proceeds received in connection with Qualified Stock Option Plan (Note 5)	(210,000)	—
Excess of fair market value over cost of treasury stock issued under Employee Stock Ownership Plan (Note 5)	5,000	—
Excess of fair market value over net book value of Canadian Superior Oil Ltd. capital stock issued in acquisition of Alminex Limited (Note 1)	3,466,000	—
Issue price over (under) net book value of Canadian Superior Oil Ltd. capital stock issued under stock option plan (Note 5)	<u>(6,000)</u>	<u>37,000</u>
Balance at end of year	<u>\$ 4,931,000</u>	<u>\$ 1,676,000</u>

The accompanying summary and notes are an integral part of the financial statements.

Consolidated Balance Sheet

December 31, 1977 and 1976

	1977	1976
ASSETS		
CURRENT ASSETS		
Cash (Note 3)	\$ 13,096,000	\$ 16,783,000
Short-term investments, principally certificates of deposit	86,307,000	86,178,000
Accounts receivable	120,318,000	86,951,000
Inventories, principally materials and supplies	45,928,000	35,859,000
Prepaid expenses	9,489,000	10,191,000
	<u>275,138,000</u>	<u>235,962,000</u>
INVESTMENTS (Notes 2 and 7)		
Affiliated companies		
McIntyre Mines Limited (owned 40.5%)	83,774,000	94,812,000
Austral Oil Company Incorporated (owned 20.6%)	17,865,000	15,459,000
Western Platinum Limited (owned 24.0%)	12,425,000	13,173,000
Marketable securities, at cost		
Texaco Inc.	—	16,155,000
Other	22,946,000	27,053,000
	<u>137,010,000</u>	<u>166,652,000</u>
PROPERTIES, PLANT AND EQUIPMENT, at cost (Note 9)		
Undeveloped oil and gas properties	188,141,000	119,997,000
Producing oil and gas properties	198,007,000	134,171,000
Wells and related production equipment (exclusive of intangible drilling and development costs)	380,750,000	335,501,000
Gas plants and related facilities	85,232,000	82,259,000
Agricultural properties and related facilities (Note 3)	125,094,000	120,533,000
Other properties and equipment	81,876,000	77,934,000
	<u>1,059,100,000</u>	<u>870,395,000</u>
Less — Accumulated depletion, depreciation and amortization	375,319,000	345,432,000
	<u>683,781,000</u>	<u>524,963,000</u>
DEFERRED CHARGES AND OTHER ASSETS	10,929,000	9,935,000
	<u>\$1,106,858,000</u>	<u>\$937,512,000</u>

The accompanying summary and notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

	1977	1976
Current maturities on long-term debt (Note 3)	\$ 13,564,000	\$ 18,157,000
Short-term notes payable (Note 3)	9,215,000	9,973,000
Natural gas sales subject to refund (Note 4)	30,053,000	30,692,000
Accounts payable	93,677,000	55,173,000
Federal and foreign income taxes (Note 6)	43,825,000	29,250,000
Other current liabilities	5,687,000	4,688,000

196,021,000 147,933,000

LONG-TERM DEBT (Note 3) 85,012,000 76,741,000

DEFERRED FEDERAL AND FOREIGN INCOME TAXES (Note 6) .. 33,056,000 28,460,000

MINORITY INTEREST IN SUBSIDIARIES (Note 1) 149,968,000 99,693,000

COMMITMENTS AND CONTINGENCIES (Note 7)

SHAREHOLDERS' EQUITY (Note 5)

Preferred stock, \$1.00 par value, 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock \$2.50 par value	10,625,000	10,625,000

	1977	1976
Shares authorized	10,000,000	10,000,000
Shares issued	4,250,140	4,250,140
Shares in treasury	248,240	248,015
Shares outstanding	4,001,900	4,002,125
Additional paid-in capital	4,931,000	1,676,000
Retained earnings (Note 3)	665,484,000	610,546,000
Treasury stock, at cost	(38,239,000)	(38,162,000)
	<u>642,801,000</u>	<u>584,685,000</u>
	<u>\$1,106,858,000</u>	<u>\$937,512,000</u>

Consolidated Statement of Changes in Financial Position*For the Years Ended December 31, 1977 and 1976*

	1977	1976
RESOURCES PROVIDED		
From operations		
Income before extraordinary items	\$ 62,540,000	\$ 50,397,000
Items not using (providing) resources		
Depletion, depreciation, amortization and abandoned properties	46,396,000	51,956,000
Equity in undistributed (earnings) losses of affiliated companies (Note 2)	10,880,000	(3,202,000)
Deferred income taxes	1,377,000	1,378,000
Minority interest in subsidiaries	20,040,000	18,497,000
Gain on sale of Texaco stock	(9,325,000)	—
Other (net)	3,065,000	(1,914,000)
	<u>134,973,000</u>	<u>117,112,000</u>
Capital stock of Canadian Superior Oil Ltd. issued in acquisition of Alminex Limited (Note 1)	18,798,000	—
Proceeds from:		
Sale of properties, plant and equipment	6,234,000	4,102,000
Long-term debt	21,300,000	930,000
Sale of Texaco stock	25,480,000	—
Sale of other marketable securities	2,347,000	876,000
	<u>209,132,000</u>	<u>123,020,000</u>
RESOURCES APPLIED		
Additions to properties, plant and equipment		
Oil and gas properties	81,953,000	20,734,000
Wells and related production equipment	50,626,000	30,665,000
Gas plants and related facilities	2,232,000	9,672,000
Agricultural properties and equipment	6,820,000	6,075,000
Other	11,127,000	17,301,000
Acquisition of Alminex Limited (less working capital acquired — \$10,338,000) (Note 1)	42,064,000	—
Retirement of long-term debt	18,014,000	16,359,000
Increase (decrease) in current maturities on long-term debt	(4,593,000)	4,576,000
Cash dividends paid on common stock	7,602,000	7,212,000
Investment in Austral Oil Company Incorporated	1,500,000	398,000
Purchase of treasury stock from the Estate of W. M. Keck	1,360,000	1,412,000
Other (net)	(661,000)	(2,623,000)
	<u>218,044,000</u>	<u>111,781,000</u>
Increase (decrease) in working capital	\$ (8,912,000)	\$ 11,239,000
ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL		
Cash	\$ (3,687,000)	\$ (3,768,000)
Short-term investments	129,000	16,388,000
Accounts receivable	33,367,000	3,016,000
Inventories and prepaid expenses	9,367,000	3,516,000
Current maturities on long-term debt	4,593,000	(4,576,000)
Short-term notes payable	758,000	(250,000)
Natural gas sales subject to refund	639,000	953,000
Accounts payable and other current liabilities	(39,503,000)	(932,000)
Federal and foreign income taxes	(14,575,000)	(3,108,000)
Increase (decrease) in working capital	<u>\$ (8,912,000)</u>	<u>\$ 11,239,000</u>

The accompanying summary and notes are an integral part of the financial statements.

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries owned more than fifty percent including Canadian Superior Oil Ltd. (Canadian Superior) which is 50.9 percent owned. The minority interest shareholders' equity in the net assets of subsidiaries is set forth in the Consolidated Balance Sheet and their equity in subsidiaries' net income has been deducted in arriving at consolidated net income. All significant intercompany accounts and transactions have been eliminated.

Superior's investments in all other companies owned twenty percent or more are stated at cost as adjusted for Superior's share of reported earnings or losses less amortization of excess costs. Investments in all other companies are carried at cost.

Certain prior year amounts have been reclassified to conform to 1977 presentation.

FOREIGN CURRENCY TRANSLATION

Current assets and liabilities and long-term debt are translated at year-end exchange rates. All other assets and liabilities are translated at historical rates. Revenue and expense accounts are translated at current rates in effect during the year other than depletion, depreciation and abandonments which are translated at historical rates.

INCOME TAXES

A consolidated Federal income tax return is filed by Superior and its wholly owned domestic subsidiaries.

Certain items of income and expense are recognized in different periods for financial reporting and U.S. Federal income tax reporting purposes. To eliminate the effect of these timing differences, Superior follows tax allocation principles in the determination of the appropriate tax expense for each year. The most significant timing differences recognized are equity in the earnings of affiliates and oil and gas exploration and development costs. Investment tax credits are recognized as a reduction of Federal income tax expense when utilized for tax reporting purposes.

Deferred Canadian income taxes are provided as a result of claiming capital cost allowances, oil and gas lease acquisitions, exploration and drilling costs and other allowable expenses for tax purposes in differing amounts from those written off for financial reporting purposes.

Foreign withholding taxes are provided on the Company's equity in the earnings of affiliates and subsidiaries which are expected to be received as dividends. Such taxes are included in the balance sheet as a deferred liability.

INVENTORIES

Materials and supplies are valued at average cost. Stocks of crude oil, natural gasoline and liquid petroleum gases are valued at current market price.

Summary of Significant Accounting Policies

UNDEVELOPED LEASES

The acquisition costs of undeveloped oil and gas properties are capitalized. Subsequently, such acquisition costs are either: (a) transferred to producing oil and gas properties when a lease becomes productive, or (b) charged to expense prior to or when a lease is surrendered or relinquished. Rentals of undeveloped oil and gas properties are charged to expense when paid. See Note 9 for a discussion of the change in accounting principles which will be required under a recent Financial Accounting Standards Board statement.

DEPLETION AND DEPRECIATION

In all areas except Canada, depletion and depreciation of producing oil and gas properties and related equipment are calculated on an individual property basis using the unit-of-production method. Depreciation of other plant and equipment is calculated on the straight-line method in amounts which, in the opinion of management, are adequate to allocate the cost of such properties over the established useful lives.

In Canada, depletion of producing oil and gas properties is calculated on a composite basis using the unit-of-production method. Depreciation of wells and related production equipment (excluding offshore production platforms) is calculated on a composite basis using the declining balance method at a thirty percent rate. Depreciation of offshore production platforms and gas plants and related facilities is calculated on a composite basis using the declining balance method at a ten percent rate. Depreciation of other plant and equipment is calculated using the declining balance method at rates which, in the opinion of management, are adequate to allocate the cost of such properties over the established useful lives.

EXPLORATORY AND DEVELOPMENT COSTS

Exploratory and development costs, including intangible drilling and development costs on productive and nonproductive wells and geological and geophysical costs, are charged to expense in the year incurred. Tangible equipment is capitalized and depreciated as set forth above under Depletion and Depreciation. See Note 9 for a discussion of the change in accounting principles which will be required under a recent Financial Accounting Standards Board statement.

AGRICULTURAL OPERATIONS

Expenditures incurred in the acquisition and development of productive permanent crops (such as citrus, nuts and fruits) are capitalized until the trees and vines reach maturity or commercial production. Beginning with the first year of commercial production, development costs are amortized on the straight-line method over the estimated productive lives of the groves and vineyards.

Expenses required to maintain the groves and vineyards and to harvest the crops are matched with appropriate sales and revenues. Crop expenses that relate to harvests of a future period are included in prepaid expenses on the consolidated balance sheet.

In connection with the sale of certain crops, the final settlement price which the Company receives is not determined until the purchaser has resold the crop. Revenues are recognized at the time the crop is sold to the purchaser based on the lower of current market price or the estimated final settlement price.

This summary is an integral part of the financial statements.

Notes to Consolidated Financial Statements

(1) CANADIAN SUPERIOR OIL LTD. —

The accounts of Canadian Superior Oil Ltd. (Canadian Superior), 50.9 percent owned by Superior at December 31, 1977 and 53.3 percent owned at December 31, 1976, are included in the consolidated financial statements. The minority interest shareholders' equity in the net assets of Canadian Superior was \$135,104,000 and \$99,693,000 at December 31, 1977 and 1976, respectively. At December 31, 1977 Superior's equity in the net assets of Canadian Superior was \$12,666,000 less than its investment therein. Such amount has been included in producing oil and gas properties and is being amortized over the next 10 years. Amortization was \$1,266,000 in both 1977 and 1976.

On December 19, 1977 Canadian Superior offered to purchase all the outstanding shares of Alminex Limited (Alminex), a Canadian oil and gas company, for 1/13 of a common share of Canadian Superior and cash of Cdn. \$7.00 for each share of Alminex. The offer will remain open until April 20, 1978. Approximately 49.9% of the outstanding shares of Alminex were owned by Falconbridge Nickel Mines Limited (Falconbridge), an affiliate of McIntyre Mines Limited.

As of December 31, 1977 Canadian Superior had acquired 65.3% of the outstanding shares of Alminex (including the shares acquired from Falconbridge) in exchange for cash of \$33,604,000 and 385,235 shares of Canadian Superior stock valued at \$18,798,000. As a result of the issuance of the Canadian Superior shares in the acquisition, the Company's percentage ownership of Canadian Superior decreased from 53.3 percent to 50.9 percent. The Company's equity in the excess of the fair market value over net book value of the Canadian Superior stock issued was credited to Additional Paid-In Capital (\$3,466,000). If the balance of the outstanding shares of Alminex are acquired in 1978, Canadian Superior will be required to make further cash payments totalling \$17,652,000 and issue 212,185 additional common shares.

The acquisition of the 65.3% interest in Alminex has been accounted for as a purchase and the assets and liabilities of Alminex have been included in the accompanying Consolidated Balance Sheet at December 31, 1977. The minority interest shareholders' 34.7% equity in the net assets of Alminex (\$14,864,000) is included under Minority Interest in Subsidiaries. The results of operations of Alminex will be included in income of Canadian Superior and the Company from January 1, 1978. The purchase price of the Alminex shares acquired through December 31, 1977 exceeded the underlying net assets of Alminex by \$24,430,000. Such amount has been allocated to producing oil and gas properties and will be amortized over the life of the properties.

The Company's unaudited consolidated results of operations on a pro-forma basis as though the 65.3% interest in Alminex had been acquired by Canadian Superior as of January 1, 1976 are as follows (in thousands of U.S. dollars):

	Year Ended December 31	
	1977	1976
Revenues	568,603	463,486
Net income	63,222	51,879
Net income per share	15.80	12.95

(2) INVESTMENTS —

The Company's investments in McIntyre Mines Limited (McIntyre), a Canadian corporation engaged in coal mining, Austral Oil Company Incorporated (Austral), a U.S. corporation engaged in oil and gas operations, and Western Platinum Limited (Western Platinum), a South African corporation engaged in platinum mining, are accounted for on the equity method. An analysis of Superior's investment in these affiliated companies is presented in the following table, in thousands of U.S. dollars.

THE SUPERIOR OIL COMPANY AND SUBSIDIARY COMPANIES

	<u>Total</u>	<u>McIntyre</u> <u>(owned 40.5%(a))</u>	<u>Austral</u> <u>(owned 20.6%)</u>	<u>Western</u> <u>Platinum</u> <u>(owned 24.0%)</u>
Transactions of prior years				
Cost of capital stock	111,763	91,661	14,207	5,895
Cash advances	5,118	—	—	5,118
Equity in earnings	24,842	21,356	831	2,655
Dividends received	(8,819)	(8,819)	—	—
Amortization of excess cost(b)	(14,162)	(13,468)	(322)	(372)
Investment at December 31, 1975	118,742	90,730	14,716	13,296
Cost of capital stock	398	—	398	—
Equity in 1976 earnings before extraordinary items	6,313	5,569	743	1
Equity in extraordinary items(c)	1,102	1,102	—	—
Dividends received	(997)	(997)	—	—
Amortization of excess cost	(2,114)	(1,592)	(398)	(124)
Investment at December 31, 1976	123,444	94,812	15,459	13,173
Loans to affiliated companies	1,500	—	1,500	—
Equity in earnings (losses)	(7,836)	(8,519)	1,307	(624)
Dividends received	(927)	(927)	—	—
Amortization of excess cost	(2,117)	(1,592)	(401)	(124)
Investment at December 31, 1977	114,064	83,774	17,865	12,425
Quoted market price at December 31, 1977		23,300	30,000	Not Quoted
Unamortized excess cost at December 31, 1977 .		30,242	4,809	1,855
Remaining years over which excess cost will be amortized on straight-line basis		19	12	15

- (a) McIntyre capital stock is owned 36.2% directly by Superior and 4.3% indirectly through Canadian Superior.
(b) The term "excess cost" is used to denote the amount by which the cost of Superior's investment in the capital stock of each of its affiliates exceeded Superior's equity in the affiliate's net assets at the date of acquisition.
(c) Reduction in deferred income tax expense resulting from carryforward of prior years' losses.

Summarized financial information relating to McIntyre (audited by auditors other than Arthur Andersen & Co.) and Austral (audited by Arthur Andersen & Co.) is set forth below:

	<u>McIntyre (owned 40.5%)</u> <u>(in thousands of Canadian dollars)</u>		<u>Austral (owned 20.6%)</u> <u>(in thousands of U.S. dollars)</u>	
	<u>As of December 31,</u>		<u>As of December 31,</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Current assets	29,582	25,189	13,476	8,283
Investment in Falconbridge, quoted market price \$38,355,000 at December 31, 1977	99,635	115,817	—	—
Properties, plant and equipment	96,990	87,611	72,085	69,411
Other assets	6,756	9,377	264	292
	232,963	237,994	85,825	77,986
Current liabilities	16,767	23,621	3,359	3,847
Long-term debt	67,275	49,416	10,733	13,719
Deferred income taxes	2,094	285	15,346	10,526
Shareholders' equity	146,827	164,672	56,387	49,894
	232,963	237,994	85,825	77,986
	<u>Year Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Revenues	118,837	119,309	27,532	20,231
Equity in earnings (losses) of Falconbridge	(11,493)	5,424	—	—
Expenses and tax provision	(116,843)	(111,310)	(21,188)	(16,522)
Income before extraordinary items	(9,499)	13,423	6,344	3,709
Extraordinary items	(5,915) (a)	2,741 (b)	—	—
Net income	(15,414)	16,164	6,344	3,709

- (a) Attributable to writedown of investments in Falconbridge Nickel Mines Limited and Madeleine Mines Ltd. (\$13,450,000) and equity in Falconbridge's gain on the sale of Alminex (\$7,535,000).
(b) Reduction in deferred income taxes resulting from prior years' losses.

McIntyre Mines Limited

McIntyre has reviewed the underlying equity of its investments in Falconbridge Nickel Mines Limited (a 37.2% owned affiliate engaged in nickel and copper mining) and Madeleine Mines, Ltd. (a 36.4% owned affiliate engaged in copper mining). The review was made as a result of the low market values of Falconbridge and Madeleine, the uncertain position regarding the ultimate recovery of assets relating to certain mining properties because of depressed world markets for metals, and because the financial statements of these two affiliates at December 31, 1977, together with the auditors' reports thereon, expressed uncertainty about the recovery of the assets relating to certain mining properties. As a result of the review McIntyre believed its investments in the affiliates were overstated in the light of current overall market conditions and outlooks, and that some recognition thereto was necessary. As a consequence, McIntyre wrote down its investments in these affiliates by Cdn. \$13,450,000, of which Cdn. \$11,300,000 relates to Falconbridge and Cdn. \$2,150,000 to Madeleine. The writedown is related to the affiliates' underlying mining assets whose long-term recovery is uncertain at this time. In the annual report to its shareholders, McIntyre reported the writedowns as extraordinary items in accordance with Canadian accounting principles. The writedowns have been included in the Company's equity in earnings (losses) before extraordinary items in accordance with U.S. accounting principles.

McIntyre also recorded as an extraordinary item its Cdn. \$7,535,000 equity in the gain reported by Falconbridge on the sale of its investment in Alminex Limited to Canadian Superior as discussed in Note 1. Since Canadian Superior and McIntyre are both affiliates of the Company, the Company has eliminated its applicable portion of the gain in recording its equity in the loss of McIntyre. This elimination resulted in an increase in the equity in loss and a reduction of the investment in McIntyre by \$2,793,000.

At December 31, 1977 the Company's carrying value of the investment in McIntyre was approximately \$27,000,000 in excess of its equity in the underlying net assets of McIntyre and \$60,000,000 in excess of the quoted market price. In the opinion of management of the Company, the Company's equity in the fair value of the underlying assets of McIntyre is in excess of the Company's investment.

Austral Oil Company Incorporated

In September, 1977 the Company and Austral Oil Company Incorporated agreed in principle to the acquisition by the Company of substantially all of Austral's assets for cash. On March 10, 1978 the parties executed a definitive agreement and it is expected the transaction will be closed on or about March 31, 1978. The closing is contingent upon the adoption of a plan of complete liquidation of Austral by its shareholders at a special meeting to be held March 30, 1978.

Under the terms of the agreement, the Company will purchase all of Austral's domestic producing and nonproducing oil and gas properties and the capital stock of its wholly owned subsidiary, Austral Petroleum Gas Corporation (APG). APG is a participant in a joint venture engaged in the exploration and development of oil and gas properties in Indonesia. The total purchase price will be determined as: \$170,082,922; plus: (a) interest at prime rate on \$164,316,000 from December 15, 1977 to the closing date, (b) all costs with respect to the domestic oil and gas properties subsequent to September 30, 1977, (c) all advances made to APG subsequent to September 30, 1977 and (d) a fixed amount to compensate Austral for general and administrative expenses incurred subsequent to September 30, 1977: less (a) most production revenues and other amounts received subsequent to September 30, 1977 which relate to domestic oil and gas properties and (b) all repayments of intercompany advances made by APG subsequent to September 30, 1977.

Approximately \$120,000,000 of the funds required by the Company for the acquisition of Austral's assets will be obtained from two groups of commercial banks. The loans are to be made

on a nonrecourse basis to the Company and will be secured by the assets acquired in the transaction. Substantially all the revenues from the domestic properties and the Indonesian operations will be dedicated to the repayment of the loans.

In connection with the liquidation of Austral, it is estimated the Company will receive distributions of approximately \$30,600,000 to \$32,300,000 for its interest in the common stock of Austral. The excess of the distributions received over the Company's carrying value of the Austral common stock will be accounted for as a reduction of the purchase price of the Austral properties.

Western Platinum Limited

At December 31, 1977 Western Platinum was operating at approximately 70 percent of capacity because of depressed worldwide prices for platinum, palladium and other precious metals.

Marketable Securities

A summary of the Company's marketable securities is set forth below (in thousands of dollars).

	December 31, 1977		December 31, 1976	
	Market	Cost	Market	Cost
Texaco Inc. (949,072 shares in 1976)	—	—	26,337	16,155
Other	24,043	22,946	28,809	27,053
	<u>24,043</u>	<u>22,946</u>	<u>55,146</u>	<u>43,208</u>

At December 31, 1977 and 1976, the gross unrealized gains of all marketable securities were \$6,221,000 and \$17,237,000, respectively, and the gross unrealized losses were \$5,124,000 and \$5,299,000, respectively. The net realized gains included in the consolidated statements of income were \$7,342,000 in 1977 and \$376,000 in 1976. The cost of securities sold was determined on a specific share basis.

(3) LONG-TERM AND SHORT-TERM DEBT —

Long-term debt at December 31, comprises:

	Amounts in Thousands of Dollars	
	1977	1976
The Superior Oil Company and Subsidiaries other than Superior Farming Company		
Debentures, 3¾%, due July 1, 1981 — \$1,500,000 semiannual sinking fund requirements	10,485	12,860
Notes payable to banks		
One-fourth of one percent above prime rate, principal due in 1978	2,057	9,429
One-fourth of one percent above prime rate, principal due in semiannual installments of \$1,714,000	8,572	12,000
7¾% demand note	20,000	—
Other notes payable	310	404
Advances from gas purchasers, noninterest bearing	8,675	12,045
Superior Farming Company		
8¾% note payable to an insurance company, principal due in annual installments of \$250,000 through January 1, 1991 with balance due on January 1, 1992, secured by land	16,641	16,891
6½% notes payable to another company, principal due in annual installments of \$1,563,000 through 1987, secured by land	17,190	17,190
Note payable to a bank at one-half of one percent above prime rate, principal balance due on November 14, 1980	11,100	11,100
Other notes payable and capitalized lease obligation, interest either at stated rates ranging from 5¾% to 10% or at one percent above prime rate	3,546	2,979
	<u>98,576</u>	<u>94,898</u>
Less current maturities	<u>13,564</u>	<u>18,157</u>
	<u>85,012</u>	<u>76,741</u>

The aggregate amounts of long-term debt due within five years from December 31, 1977 are as follows:

<u>Year</u>	<u>Amounts in Thousands of Dollars</u>
1978	13,564
1979	9,946
1980	19,450
1981	6,131
1982	3,491

At December 31, 1977, \$1,515,000 principal amount of cancelled debentures had been applied to the 1978 sinking fund requirements. Outstanding debentures may be redeemed, subject to certain limitations, in whole or in part at any time.

A bank has agreed to refinance the \$20,000,000 demand note under a long-term loan agreement. Accordingly, this obligation has been classified as long-term debt in the Consolidated Balance Sheet at December 31, 1977. Under the terms of the agreement the new loan will bear interest at 7¾ percent through September 1, 1978 and thereafter at the prime rate and will be repaid in nine substantially equal semiannual installments beginning September 1, 1983.

The loan agreements with several banks in the amounts of \$2,057,000 and \$8,572,000 at December 31, 1977 and the refinancing agreement discussed above contain, among other things, provisions setting forth working capital and long-term debt to equity requirements and restrictions on other borrowings, pledging of assets, and dividends on common stock.

At December 31, 1977, approximately \$521,000,000 of consolidated retained earnings was restricted as to payment of dividends under the provisions of Superior's debenture and loan agreements.

Although not a written provision of its long-term loan agreements, the Company maintains compensating cash balances equal to a specified percentage of the outstanding balance of certain bank loans. At December 31, 1977 the aggregate amount of such compensating balances was approximately \$2,100,000.

During 1976 Canadian Superior entered into a loan agreement, which was amended in 1977, with U. S. banks and a Canadian bank whereby Canadian Superior may borrow, at any time through September 1, 1979, up to \$200,000,000. Twenty-five percent of the principal amount outstanding at September 1, 1979 will be repayable in installments between December 1979 and September 1984 and the balance will be repayable in installments between December 1984 and September 1986. The agreement contains provisions which set forth certain working capital, current ratio, tangible net worth, debt to net worth requirements and restrictions on cash dividends. No borrowings have been made under this agreement.

The short-term notes payable outstanding at December 31, 1977 and 1976 are applicable to Superior Farming Company under a short-term loan agreement whereby it may borrow an aggregate of \$10,000,000 at the bank's prime rate to finance its annual crop programs. These notes are due on demand, or if not demand, the maturity stated on the note. A twenty percent compensating cash balance must be maintained on the outstanding balance. Listed below are pertinent facts concerning short-term debt:

	<u>Amounts in Thousands of Dollars</u>	
	<u>1977</u>	<u>1976</u>
Balance outstanding at year-end	9,215	9,973
Maximum outstanding at any month-end	9,973	9,973
Average outstanding during the year	7,524	8,921
Weighted average interest rate (interest paid divided by weighted average principal outstanding)	6.3%	6.8%

(4) NATURAL GAS SALES SUBJECT TO REFUND —

On February 27, 1978 the United States Supreme Court, by its refusal to review a June 1977 decision by the District of Columbia Circuit Court of Appeals, upheld Federal Power Commission (FPC) Opinion 770, as modified by Opinion 770-A. Such Opinions provide for higher national prices, effective July 27, 1976, for interstate sales of natural gas from wells commenced after December 31, 1972. The Company has filed for and collected the higher rates wherever possible and has included such amounts in net income in 1977 and 1976.

In 1974 the Supreme Court upheld a rate determination by the FPC covering the southern Louisiana area. As a result, the Company was obligated to refund \$31,754,000, including accrued interest of \$16,425,000, to several gas purchasers on October 31, 1977. At that time refunds totaling \$2,084,000 were made to certain purchasers. The Company has entered into agreements with the remaining purchasers whereby the Company's refund obligation would be reduced or eliminated in connection with the exploration and development of specified undeveloped offshore oil and gas areas. Under these agreements all natural gas produced from the designated properties will be committed to these purchasers. Filings for approval of the agreements have been made with the Federal Energy Regulatory Commission (the successor to the FPC) and are currently pending. If the agreements are not approved, the Company will be required to discharge its remaining refund obligation, which at December 31, 1977 totaled \$30,053,000, including interest of \$16,198,000.

(5) STOCK OPTION AND STOCK BONUS PLANS —

The Superior Oil Company

In 1969, the shareholders approved a Qualified Stock Option Plan under which options to purchase shares of the Company's common stock may be granted to certain employees at a price not less than the fair market value at date of grant, exercisable after one year and not later than five years from date of grant. A maximum of 80,000 shares may be granted under this plan. During 1974 options were granted to purchase 12,100 shares at \$161.75 per share; no other options have been granted under the Plan. Options on 4,500 shares were exercised in 1977; no options were exercised in 1976. Options on 700 shares expired in 1976; no options expired in 1977. At December 31, 1977, options on 6,700 shares were outstanding and exercisable, all of which will expire not later than July 24, 1979, and 68,800 shares were available for future grants under the plan until March 9, 1979.

The shareholders also approved a Restricted Stock Bonus Plan under which stock bonuses (not to exceed 4,000 shares annually) may be awarded through calendar year 1978 to key employees. A total of 8,000 shares of the Company's treasury stock has been awarded in prior years. No awards were made in 1977 or 1976.

The Tax Reduction Act of 1975 contained provisions allowing certain taxpayers to include an additional one percent investment tax credit in their Federal income tax returns, provided an amount equal to the additional one percent is placed in an Employee Stock Ownership Plan for the benefit of certain employees. On September 14, 1977 the Company adopted such a Plan and 1,650 shares of the Company's treasury stock were contributed to the Plan. The Company is currently awaiting Internal Revenue Service approval of the Plan.

Canadian Superior Oil Ltd.

Under Canadian Superior's stock option plan, options have been granted to certain of its officers and key employees to purchase shares of Canadian Superior capital stock at prices which were not lower than 90 percent of the market value at date of grant. No options were granted in 1977 or 1976. Options on 1,625 and 3,350 shares were exercised during 1977 and 1976, respectively. At December 31, 1977 options to purchase 41,225 shares at prices of Cdn. \$20.70 and Cdn.

\$28.60, the majority of which expire in 1984, were outstanding and 51,700 shares were available for future grants. The effect of the transactions applicable to Superior's interest in Canadian Superior has been reflected in the additional paid-in capital account of Superior.

(6) INCOME TAXES —

The Company's income tax expense for 1977 and 1976 consisted of the following:

	Amounts in Thousands of Dollars	
	1977	1976
United States Federal income taxes		
Current	31,100	18,900
Deferred	(900)	2,700
	<u>30,200</u>	<u>21,600</u>
Foreign income taxes (primarily Canadian)		
Current	37,993	38,433
Deferred	2,277	(1,322)
	<u>40,270</u>	<u>37,111</u>
State and local income taxes	2,135	822
	<u>72,605</u>	<u>59,533</u>

A reconciliation of the income tax expense computed by applying the 48 percent U.S. Federal income tax rate to the Company's income before income taxes, minority interest and extraordinary items to the Company's actual income tax expense is presented below.

	Amounts in Thousands of Dollars	
	1977	1976
Federal income tax expense computed at 48 percent	74,489	61,645
Increase (reduction) resulting from —		
Investment tax credit	(11,100)	(5,800)
U.S. tax and foreign withholding tax provided on earnings of foreign subsidiaries and affiliates	8,351	8,590
Other	865	(4,902)
Income tax expense	<u>72,605</u>	<u>59,533</u>

The provision for deferred taxes results from timing differences between financial and taxable income. The sources of these timing differences are:

	Amounts in Thousands of Dollars	
	1977	1976
U.S. tax and foreign withholding tax provided on earnings of for- eign subsidiaries and affiliates	3,474	6,189
Oil and gas exploration and development costs capitalized for tax purposes, expensed currently for financial purposes	(1,858)	(2,098)
Other	(239)	(2,713)
	<u>1,377</u>	<u>1,378</u>

Investment tax credits are recognized as a reduction of Federal income tax expense when utilized for tax reporting purposes. The investment tax credits recognized above include \$6,900,000 in 1977 and \$5,800,000 in 1976 which were applicable to assets purchased in prior years. At December 31, 1977 all available investment tax credits have been utilized for tax and financial reporting purposes.

In accordance with the Company's policy, U.S. Federal income taxes and foreign withholding taxes have been provided on the Company's portion of the earnings of foreign subsidiaries and affiliates (primarily Canadian Superior and McIntyre) as if those earnings had been received in the form of dividends in the current year and after giving effect to foreign tax credits that would have been available. Through December 31, 1975, available foreign tax credits substantially reduced the amount of taxes which the Company had to provide. The Tax Reduction Act of 1975 (Act) includes certain limitations on foreign tax credits available on income derived from foreign oil and gas operations which resulted in an increase in the provision for taxes in 1977 and 1976. The actual amount of foreign tax credits which will be available at the time the foreign income is actually received in the form of dividends will be dependent upon many factors, including the Company's total foreign oil and gas activities at that time.

The natural gas sales to be refunded under the 1974 Supreme Court ruling (see Note 4) were required to be included in taxable income in the years the amounts were collected and the related interest expense was not deductible for tax purposes when accrued. In those years, the Company had sufficient other deductions (primarily percentage depletion) to eliminate the necessity of a tax provision for financial and tax purposes. If the Company is required to refund the remaining obligation, the tax benefit which will be received will be recognized for financial purposes as an extraordinary credit.

The consolidated Federal income tax returns of Superior for the years 1970 through 1973 are presently being examined by the Internal Revenue Service.

(7) COMMITMENTS AND CONTINGENCIES —

Retirement Income Plans

The Company and its wholly owned subsidiaries have noncontributory retirement income plans covering substantially all of their employees, including certain employees in foreign countries and certain employees of Canadian Superior Oil Ltd. Pension expenses for 1977 and 1976 were \$6,494,000 and \$6,524,000, respectively. The Company's policy is to fund pension cost accrued using the aggregate cost funding method. The calculation of past service costs, and the unfunded prior service cost applicable thereto, is not dealt with separately under this method but is a component of the future benefit contributions accrued and funded each year. At December 31, 1976, the date of the most recent actuarial review, the pension plan assets, at market, exceeded the actuarially determined value of vested benefits.

The employees of Canadian Superior and its subsidiaries, other than those covered by Superior's retirement income plans, are covered by a noncontributory pension plan after completion of one year of service. The estimated annual cost of the plan was \$1,073,000 and \$785,000 in 1977 and 1976, respectively. Benefits payable under the plan are provided by funded trusts.

Contingencies

In January, 1978, a major oil company filed suit against the Company and certain of its employees alleging that the Company hired former employees of the major oil company for the purpose of obtaining and using its trade secrets and proprietary data and seeking various relief, including a permanent injunction against hiring additional employees of the major oil company, surrender of any tangible items, damages and accounting for profits and/or business opportunities in indeterminate amounts. Further, a related suit was filed against Canadian Superior and one of its employees alleging that the employee breached his employment contract with the major oil company and seeking various injunctive relief, including enjoining the employee from communicating with Canadian Superior, and unspecified damages. While the ultimate outcome of these suits cannot be predicted, it is believed that they are without merit and will not have a material adverse effect on the Company.

The Federal Government has proposed new interpretations of old laws regarding irrigation water rights. These proposals, commonly referred to as the 160 Acre Limitation, generally would limit the use of water from Federally funded irrigation projects to farms of 160 acres or less. Enforcement would have a major impact upon agriculture throughout the entire western United States. The full impact of such enforcement on the Company's agriculture operations cannot be predicted, but management believes that the primary effect would be a significant increase in irrigation costs. The 160 Acre Limitation is the subject of legal and political controversy, and the outcome is uncertain.

There are other suits and claims against the Company, none of which in the opinion of management and counsel, will have a material effect on the Company.

Proposed Acquisition

On March 14, 1978 the Company and Hecla Mining Company (Hecla) agreed in principle to the acquisition by the Company of 2,500,000 shares of Hecla's unissued common shares for a cash consideration of \$18,750,000. Under the agreement Hecla will grant the Company options to purchase an additional 2,500,000 unissued shares, assign its 50 percent interest in a copper mine to the Company for advance royalties of \$100,000 per year and contingent future royalties, and lease the metallurgical plant and facilities to the Company for a prepaid annual rental of \$3,000,000. Concurrently, McIntyre Mines Limited, an affiliate of the Company, agreed in principle to purchase 1,149,068 shares of Hecla's outstanding common shares that are owned by Hecla's partner in the copper mine mentioned above. The sales price for such shares will be \$7.50 per share.

The agreements are subject to certain conditions including the satisfactory completion of investigations by the Company and executions of definitive agreements approved by the Boards of Directors of the companies and the shareholders of Hecla. If the agreements are consummated, Superior will own 31.7% of the outstanding common stock of Hecla (26.7% directly and 5.0% indirectly through McIntyre).

(8) BUSINESS SEGMENTS —

The principal business segments of the Company and its consolidated subsidiaries are oil and gas, agriculture and mining. The oil and gas segment consists of the acquisition, exploration and development of oil and gas properties and the production and sale of crude oil, natural gas and natural gas liquids. The agricultural segment consists primarily of the development, processing and marketing of permanent and annual crops. The mining segment consists of the acquisition, exploration and development of prospective hard rock mineral lands and the production, processing and marketing of metals or minerals derived from hard rock mineral ores. Pertinent information relative to the principal business segments of the Company is presented below (in thousands of dollars):

	1977						
	Oil and Gas						
	United States	Canada	Other	Agriculture(1)	Mining(1)	General Corporate	Total
Operating revenues	338,032	152,625	9,700	42,303	2,506	—	545,166
Operating profit (loss)	116,939	86,068	(30,680)	(217)	(10,759)	—	161,351
General corporate expense							(7,087)
Other income (expense)							921
Income before income taxes, minority interest and extraordinary items ...							155,185
Depletion, depreciation and amortization	23,091	9,092	1,475	4,336	876	1,211	40,081
Capital expenditures	105,044(2)	70,952(2)	7,656	6,820	4,071	279	194,822
Identifiable assets	458,052	219,768	35,944	121,294	21,826	249,974(3)	1,106,858

	1976						Total
	Oil and Gas					General Corporate	
	United States	Canada	Other	Agriculture(1)	Mining(1)		
Operating revenues	265,631	137,944	10,096	27,778	12	—	441,461
Operating profit (loss)	84,932	85,691	(26,774)	(4,228)	(8,314)	—	131,307
General corporate expense							(6,539)
Other income (expense)							3,659
Income before income taxes, minority interest and extraordinary items ...							128,427
Depletion, depreciation and amortization	22,362	8,225	1,131	3,509	139	906	36,272
Capital expenditures	49,592	13,323	7,707	6,075	7,474	276	84,447
Identifiable assets	351,038	140,894	26,137	119,915	16,908	282,620(3)	937,512

(1) Primarily in the United States.

(2) Includes \$6,272,000 and \$35,792,000 in the United States and Canada, respectively, related to acquisition of Alminex Limited.

(3) Includes primarily investments in affiliated companies, marketable securities, short-term investments and corporate property and equipment.

(9) STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 19 —

In December, 1977, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (Statement), which requires oil and gas producing companies to follow the "successful efforts" method of accounting for costs incurred in the exploration for and development of oil and gas reserves. The Statement is effective for fiscal years beginning after December 15, 1978, and is to be applied retroactively by restating prior periods' financial statements.

The Company currently expenses all intangible drilling and development costs when incurred and charges the costs of nonproductive leases to expense when such leases are surrendered. Under the provisions of the Statement, the Company will be required, among other things, to (1) capitalize the intangible drilling and development costs related to productive wells and development dry holes and amortize such costs on the unit-of-production method and (2) provide a valuation allowance to recognize impairment of the value of nonproductive leases.

Although all of the necessary computations to determine the actual effect of the required accounting changes have not been completed, the Company estimates such changes would increase retained earnings at December 31, 1977 by 15 percent to 18 percent and would increase net income for the years ended December 31, 1977 and 1976 by 29 percent to 35 percent and 17 percent to 20 percent, respectively.

(10) ESTIMATED REPLACEMENT COST DATA (UNAUDITED) —

The Securities and Exchange Commission has required that certain replacement cost data be disclosed for inventories and properties, plant and equipment. Such data is not required for properties located outside North America and the European Economic Community, mineral resource assets (assets which are directly associated with and derive value from mineral reserves), land and assets which are not yet a part of productive capacity. Since the Company's primary business is the exploration for and production of mineral resources, replacement cost data is required for only 12% of properties, plant and equipment and 6% of inventories. Due to the immateriality of the amounts for which replacement cost data is required and since such assets are not related to the Company's primary business, such information could be misleading and therefore is not included in this report. However, in compliance with the requirements of the Securities and Exchange Commission, such data is presented in the Company's Form 10-K for 1977.

(11) QUARTERLY FINANCIAL DATA (UNAUDITED) —

The following is a summary of the Company's Consolidated Statement of Income by quarter for the years ended December 31, 1977 and 1976 (in thousands of dollars, except per share data):

	1977			
	Quarter Ended			
	March 31	June 30	September 30	December 31
Operating revenues	128,195	123,127	143,032	150,812
Income from operations	50,591	34,161	39,012	30,500
Equity in earnings (losses) of affiliates	722	729	(2,868)	(8,536)
Net income	21,962	16,994	18,462	5,122
Earnings per average share outstanding	5.49	4.25	4.61	1.28

	1976			
	Quarter Ended			
	March 31	June 30	September 30	December 31
Operating revenues	108,238	99,702	110,511	123,010
Income from operations	41,338	20,952	31,814	30,664
Equity in earnings (losses) of affiliates	(327)	1,241	379	2,906
Income before extraordinary items	16,977	11,750	15,933	5,737
Extraordinary items	—	—	—	1,047
Net income	16,977	11,750	15,933	6,784
Earnings per average share outstanding	4.23	2.94	3.98	1.69

Auditors' Report

To the Shareholders and Board
of Directors,
The Superior Oil Company:

We have examined the consolidated balance sheet of The Superior Oil Company (a Nevada corporation) and subsidiary companies as of December 31, 1977 and 1976, and the related consolidated statements of income, retained earnings and additional paid-in capital, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Canadian Superior Oil Ltd., a consolidated subsidiary, or McIntyre Mines Limited, an affiliate, which statements were examined by other auditors whose reports thereon have been furnished to us. The combined amounts for such companies included in the consolidated financial statements were 37.8% and 37.0% of consolidated assets and 19.5% and 42.5% of consolidated net income for 1977 and 1976, respectively. Our opinion expressed herein, insofar as it relates to the amounts included for those companies, is based solely upon the reports of the other auditors.

In our opinion, based on our examination and the reports of other auditors, the financial statements referred to above present fairly the financial position of The Superior Oil Company and subsidiary companies as of December 31, 1977 and 1976, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Houston, Texas
March 14, 1978

Management's Analysis and Discussion of the Consolidated Statement of Income

1977

Operating revenues for the year 1977 increased \$103.7 million from 1976 to a total of \$545.2 million. Revenues from oil, gas and related products increased \$83.1 million, including a \$14.0 million increase in crude oil and condensate revenues and a \$66.6 million increase in natural gas revenues. The increase in crude oil and condensate revenues results primarily from higher sales prices for new domestic production and increased sales prices for Canadian production. The increase in natural gas revenues is primarily due to higher production and increased sales prices received for interstate sales of domestic production. Agricultural revenues increased \$14.7 million in 1977, primarily due to an increase in acreage under commercial production and increased prices for certain crops. Operating revenues for the three months ended December 31, 1977 increased \$27.8 million from the same period in 1976. Revenues from oil, gas and related products increased \$22.0 million, including increases from crude oil and condensate of \$2.1 million and natural gas of \$19.6 million. Agricultural revenues increased \$1.7 million for the period. The quarterly increases result from the factors explained above.

Operating costs for 1977 totalled \$104.0 million, an increase of \$17.7 million from 1976. Oil and gas operating costs increased \$8.2 million, including increases in maintenance and repairs of existing facilities of \$2.3 million and the workover of producing wells of \$3.3 million. Agricultural operating costs increased \$8.7 million primarily due to an increase in the acreage under commercial production and increased water costs due to drought conditions in California. Operating costs for the fourth quarter of 1977 increased \$5.2 million from the same period in 1976, including increases in oil and gas operating costs of \$1.9 million and agricultural operating costs of \$2.6 million.

Geological and geophysical costs for 1977 increased \$23.8 million from 1976 and such costs for the fourth quarter of 1977 increased \$6.8 million from the same period in 1976. Such increases are primarily due to increased exploration activities in Canada and the southern and southwestern United States.

Intangible drilling and development costs for 1977 increased \$25.7 million from 1976 primarily due to a \$19.5 million increase in domestic drilling operations and a \$3.9 million increase in expenditures in Canada. Other foreign expenditures increased \$2.3 million primarily due to a \$19.0 million expenditure on new drilling activities in the Gulf of Suez, offset by decreased activity in other foreign areas. Intangible drilling and development costs for the fourth quarter of 1977 increased \$17.2 million from the same period in 1976 and \$12.6 million from the third quarter of 1977 primarily due to increased activities in the United States and Canada.

Nonproductive leases and other properties abandoned in 1977 decreased \$9.4 million from 1976 primarily due to the abandonment in 1976 of an exploratory concession in Bangladesh.

Depletion, depreciation and amortization for 1977 increased \$3.8 million from 1976 primarily due to increases in production on high cost properties and an increase in the Company's depreciable base.

General and administrative expense for 1977 increased \$7.5 million from 1976 primarily due to a charge to expense in 1977 by Canadian Superior for all costs related to an Arctic gas pipeline research study and an increase in salaries and wages.

Loss on foreign currency translation as reflected in the financial statements results primarily from the translation of Canadian Superior's financial statements to U.S. dollars. Variations in the amounts reported are primarily the result of fluctuations in the Canadian exchange rate.

Management's Analysis and Discussion of the Consolidated Statement of Income

Gain on sale of Texaco stock. During the first six months of 1977 the Company sold its remaining holding of Texaco Inc. capital stock. The sale of 100,000 shares in the first quarter for \$2.8 million resulted in a gain of \$1.1 million. The sale of 849,072 shares in the second quarter for \$22.7 million resulted in a gain of \$8.2 million.

Equity in earnings (losses) of affiliates for 1977 decreased \$14.2 million from 1976 and such amount for the fourth quarter of 1977 decreased \$11.4 million from the fourth quarter of 1976 and \$5.7 million from the third quarter of 1977. Such decreases relate principally to variations in the earnings of McIntyre Mines Limited and its affiliates Falconbridge Nickel Mines Limited and Madeleine Mines Ltd. McIntyre reported a loss for 1977 of Cdn. \$15.4 million primarily due to: (a) a writedown of its coal inventory from realizable value to cost of Cdn. \$3.0 million; (b) an equity in the losses of affiliates totalling Cdn. \$11.7 million; and (c) a writedown of its investments in affiliates of Cdn. \$13.5 million. The writedown of the coal inventory and investments in affiliates were recognized in the fourth quarter of 1977 and their equity in the losses of affiliates for the fourth quarter of 1977 was Cdn. \$6.3 million. Additional information concerning the Company's equity in McIntyre is presented in Note 2 to the financial statements.

Interest expense in 1977 decreased \$2.6 million from 1976 and such expense for the fourth quarter of 1977 decreased \$1.2 million from the same period in 1976. The decreases are principally due to decreases in the amount of debt outstanding during the periods and a decrease in interest on Natural Gas Sales Subject to Refund due to including in 1976 interest expense the interest on prior years' credits lost as the result of certain FPC Opinions.

Income taxes for 1977 increased \$13.1 million from 1976 primarily due to an increase in income before income taxes. Income taxes for the fourth quarter of 1977 decreased \$11.2 million from the fourth quarter of 1976 and \$4.5 million from the third quarter of 1977. The decreases are primarily due to a decrease in income before income taxes and an increase in the utilization of investment tax credits.

1976

Operating revenues increased from \$382.9 million in 1975 to \$441.5 million in 1976. Revenues from crude oil and condensate increased \$7.9 million primarily due to price increases allowed under government regulations, partially offset by a decline in production. Natural gas revenues increased \$42.8 million principally due to higher prices for intrastate sales and improved Canadian prices. Operating revenues for the fourth quarter of 1976 increased \$13.9 million from the fourth quarter of 1975 and \$12.5 million from the third quarter of 1976 due to increased revenues from the sales of crude oil and natural gas.

Operating costs for the year 1976 increased \$9.3 million from 1975 primarily due to higher salaries and wages, increased expenditures for the workover of producing wells and a general rise in the cost of producing oil and gas operations.

Geological and geophysical expenses for the fourth quarter of 1976 increased \$2.7 million from the third quarter of 1976 as the result of a general rise in exploration activity, primarily conducted by Canadian Superior.

Intangible drilling and development costs for 1976 increased \$15.8 million from 1975 due to a \$8.2 million increase in domestic developmental drilling and a \$11.2 million increase in expenditures by Canadian Superior. During the period Superior's exploratory drilling decreased, primarily due to

Management's Analysis and Discussion of the Consolidated Statement of Income

decreased foreign drilling. Intangible drilling and development costs for the fourth quarter of 1976 decreased \$3.1 million from the fourth quarter of 1975 primarily due to reduced exploratory drilling in India and Bolivia.

Nonproductive leases and other properties abandoned in 1976 decreased \$2.5 million from 1975 due to a \$4.1 million decrease in agricultural properties written down, partially offset by a \$1.6 million increase in oil and gas properties and equipment abandoned. Abandonments in the fourth quarter of 1976 decreased \$5.8 million from the fourth quarter of 1975 primarily due to a \$5.2 million decrease in agricultural properties written down and increased \$1.2 million from the third quarter of 1976 due to a \$1.1 million increase in agricultural properties written down.

Depletion, depreciation and amortization for the fourth quarter of 1976 increased \$2.1 million from the fourth quarter of 1975 and \$6.9 million from the third quarter of 1976 primarily due to a reevaluation of producing oil and gas reserves.

General and administrative expense for 1976 increased \$4.1 million from 1975 and such expense for the fourth quarter of 1976 increased \$2.8 million from the same period in 1975 and \$2.4 million from the third quarter of 1976. All such increases result primarily from an increase in salaries and wages.

Loss on foreign currency translation as reflected in the financial statements results primarily from the translation of Canadian Superior's financial statements to U.S. dollars. Variations in the amounts reported are primarily the results of fluctuations in the Canadian exchange rate.

Taxes (other than income) for 1976 increased \$2.2 million from 1975 primarily due to increased production and severance taxes paid on oil and gas.

Equity in earnings of affiliates for the fourth quarter of 1976 increased \$3.4 million from the fourth quarter of 1975 and \$2.5 million from the third quarter of 1976 primarily due to increases in the Company's equity in McIntyre Mines Limited of \$3.3 million and \$2.6 million, respectively.

Interest expense for 1976 decreased \$1.5 million from 1975 due to a \$3.0 million decrease in interest on long-term debt partially offset by a \$1.5 million increase in interest accrued on natural gas sales subject to refund. Interest expense for the fourth quarter of 1976 increased \$0.8 million from the fourth quarter of 1975 and \$1.1 million from the third quarter of 1976 primarily due to increases in interest accrued on natural gas sales subject to refund.

Income taxes for the fourth quarter of 1976 increased \$10.7 million from the fourth quarter of 1975 primarily due to a \$16.0 million increase in income before income taxes. Income taxes for the fourth quarter of 1976 increased \$8.5 million from the third quarter of 1976 primarily due to a decrease in the amount of investment tax credit and foreign tax credit utilized in the provision for taxes from the amounts which the Company had estimated would be utilized in its computation of the provision for taxes in prior quarters.

THE SUPERIOR OIL COMPANY AND SUBSIDIARY COMPANIES

Five-Year Summary

CONSOLIDATED STATEMENT OF INCOME

(amounts in thousands of dollars)

	1977	1976	1975	1974	1973
OPERATING REVENUES	545,166	441,461	382,856	333,119	243,175
OPERATING EXPENSES					
Operating costs	103,961	86,252	76,955	64,584	55,209
Geological and geophysical	52,964	29,158	29,885	28,835	21,879
Intangible drilling and development costs	126,859	101,128	85,325	58,335	41,065
Depletion, depreciation, amortization and abandonments	46,396	51,956	51,278	39,729	39,814
General and administrative	33,706	26,174	22,024	18,582	15,295
Loss (gain) on foreign currency translation	3,567	494	2,795	(401)	(150)
Taxes (other than income)	23,449	21,531	19,289	18,094	11,367
	390,902	316,693	287,551	227,758	184,479
INCOME FROM OPERATIONS	154,264	124,768	95,305	105,361	58,696
OTHER INCOME (EXPENSE)					
Dividends and miscellaneous income	18,326	9,505	34,726	14,284	15,059
Equity in affiliates	(9,953)	4,199	4,368	3,432	6,534
Interest expense	(7,452)	(10,045)	(11,588)	(14,242)	(10,719)
	921	3,659	27,506	3,474	10,874
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEMS	155,185	128,427	122,811	108,835	69,570
Income taxes	(72,605)	(59,533)	(54,804)	(33,077)	(19,688)
Minority interest in Canadian Superior Oil Ltd.	(20,040)	(18,497)	(15,539)	(14,761)	(8,099)
INCOME BEFORE EXTRAORDINARY ITEMS ...	62,540	50,397	52,468	60,997	41,783
EXTRAORDINARY ITEMS					
Reduction in Federal income tax expense resulting from use of prior years' loss carryforwards	—	—	—	7,000	6,000
Equity in extraordinary items of affiliated company	—	1,047	2,874	—	1,002
NET INCOME	62,540	51,444	55,342	67,997	48,785
PER SHARE DATA (in dollars)					
Income before extraordinary items	15.63	12.58	13.08	15.15	10.36
Extraordinary items	—	.26	.71	1.74	1.74
Net income	15.63	12.84	13.79	16.89	12.10
Average shares outstanding	4,001,406	4,005,796	4,012,050	4,026,092	4,032,800
RETAINED EARNINGS					
Retained earnings, beginning of year	610,546	566,314	517,393	455,033	411,894
Net income	62,540	51,444	55,342	67,997	48,785
Dividends paid on common stock (1977-\$1.90 per share; 1976-\$1.80 per share; 1975-\$1.60 per share; prior years - \$1.40 per share)	(7,602)	(7,212)	(6,421)	(5,637)	(5,646)
Retained earnings, end of year	665,484	610,546	566,314	517,393	455,033

Five-Year Summary

CONSOLIDATED ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

(amounts in thousands of dollars)

CURRENT ASSETS

	1977	1976	1975	1974	1973
Cash	13,096	16,783	20,551	19,165	33,371
Short-term investments	86,307	86,178	69,790	41,772	18,911
Accounts receivable	120,318	86,951	83,935	64,515	44,060
Inventories	45,928	35,859	33,770	23,361	10,114
Prepaid expenses	9,489	10,191	8,764	6,608	7,233
	<u>275,138</u>	<u>235,962</u>	<u>216,810</u>	<u>155,421</u>	<u>113,689</u>

CURRENT LIABILITIES

Accounts payable	93,677	55,173	53,987	37,937	25,660
Natural gas sales subject to refund	30,053	30,692	31,645	—	—
Current maturities on long-term debt	13,564	18,157	13,581	17,194	9,419
Other current liabilities	14,902	14,661	14,665	13,633	7,263
Federal and foreign income taxes	43,825	29,250	26,142	13,172	7,827
	<u>196,021</u>	<u>147,933</u>	<u>140,020</u>	<u>81,936</u>	<u>50,169</u>

WORKING CAPITAL

	<u>79,117</u>	<u>88,029</u>	<u>76,790</u>	<u>73,485</u>	<u>63,520</u>
--	---------------	---------------	---------------	---------------	---------------

OTHER ASSETS

Properties, plant and equipment	1,059,100	870,395	812,940	760,333	695,848
Less depletion, depreciation and amortization	375,319	345,432	316,525	290,137	264,566
	<u>683,781</u>	<u>524,963</u>	<u>496,415</u>	<u>470,196</u>	<u>431,282</u>
Investment in affiliated companies	114,064	123,444	118,742	97,374	95,391
Investment in Texaco Inc.	—	16,155	16,155	60,927	60,927
Investment in other securities	22,946	27,053	27,641	25,107	25,013
Deferred charges and other assets	10,929	9,935	11,019	13,111	9,629
	<u>831,720</u>	<u>701,550</u>	<u>669,972</u>	<u>666,715</u>	<u>622,242</u>

OTHER LIABILITIES

Long-term debt	85,012	76,741	96,746	130,379	148,747
Natural gas sales subject to refund	—	—	—	30,074	32,856
Deferred Federal and foreign income taxes	33,056	28,460	27,082	20,145	19,290
Minority interest in subsidiaries	149,968	99,693	81,106	65,413	50,578
	<u>268,036</u>	<u>204,894</u>	<u>204,934</u>	<u>246,011</u>	<u>251,471</u>

NET ASSETS (working capital plus other assets less other liabilities)

	<u>642,801</u>	<u>584,685</u>	<u>541,828</u>	<u>494,189</u>	<u>434,291</u>
--	----------------	----------------	----------------	----------------	----------------

SHAREHOLDERS' EQUITY

Common stock	10,625	10,625	10,625	10,625	10,625
Additional paid-in capital	4,931	1,676	1,639	1,636	1,552
Retained earnings	665,484	610,546	566,314	517,393	455,033
Treasury stock, at cost	(38,239)	(38,162)	(36,750)	(35,465)	(32,919)
	<u>642,801</u>	<u>584,685</u>	<u>541,828</u>	<u>494,189</u>	<u>434,291</u>

Five-Year Summary

CONSOLIDATED CHANGES IN FINANCIAL POSITION (amounts in thousands of dollars)

RESOURCES PROVIDED

	1977	1976	1975	1974	1973
From operations					
Income before extraordinary items	62,540	50,397	52,468	60,997	41,783
Depletion, depreciation and abandonments	46,396	51,956	51,278	39,729	39,814
Equity in undistributed (earnings) losses of affiliates	10,880	(3,202)	(3,885)	(3,432)	(6,534)
Deferred income taxes	1,377	1,378	6,936	757	(1,106)
Gain on sale of Texaco stock	(9,325)	—	(24,251)	—	(4,747)
Minority interest in subsidiaries	20,040	18,497	15,539	14,761	8,099
Other (net)	3,065	(1,914)	157	852	1,736
	<u>134,973</u>	<u>117,112</u>	<u>98,242</u>	<u>113,664</u>	<u>79,045</u>
Extraordinary item — Federal income tax expense eliminated by prior years' loss carry-forwards	—	—	—	7,000	6,000
Capital stock of Canadian Superior Oil Ltd. issued for acquisition of Alminex Limited	18,798	—	—	—	—
Proceeds from sale of properties, plant and equipment	6,234	4,102	2,495	1,868	2,007
Proceeds from long-term debt	21,300	930	27,439	28,400	54,994
Proceeds from sale of marketable securities	27,827	876	69,414	1,014	8,167
	<u>209,132</u>	<u>123,020</u>	<u>197,590</u>	<u>151,946</u>	<u>150,213</u>
RESOURCES APPLIED					
Additions to properties, plant and equipment					
Oil and gas properties	81,953	20,734	27,315	41,903	23,049
Wells and related production equipment	50,626	30,665	28,427	16,212	15,932
Agricultural properties and equipment	6,820	6,075	5,751	12,184	59,151
Other	13,359	26,973	18,902	13,228	9,693
Acquisition of Alminex Limited (less working capital acquired — \$10,338,000)	42,064	—	—	—	—
Purchase of treasury stock	1,360	1,412	1,285	2,546	136
Retirement of long-term debt	18,014	16,359	64,685	38,993	28,769
Natural gas sales subject to refund	—	—	30,074	—	—
Increase (decrease) in current maturities	(4,611)	4,576	(3,613)	7,775	(3,870)
Investment in Austral Oil Company					
Incorporated	1,500	398	14,207	—	—
Investment in McIntyre Mines Limited	—	—	1,345	—	—
Cash dividends paid on common stock	7,602	7,212	6,421	5,637	5,646
Investment in Western Platinum	—	—	—	(1,515)	—
Other (net)	(643)	(2,623)	(514)	5,018	(4,714)
	<u>218,044</u>	<u>111,781</u>	<u>194,285</u>	<u>141,981</u>	<u>133,792</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>(8,912)</u>	<u>11,239</u>	<u>3,305</u>	<u>9,965</u>	<u>16,421</u>

ANALYSIS OF INCREASE (DECREASE) IN WORKING CAPITAL

Cash	(3,687)	(3,768)	1,386	(14,206)	8,960
Short-term investments	129	16,388	28,018	22,861	(1,480)
Accounts receivable	33,367	3,016	19,420	20,455	3,346
Inventories and prepaid expenses	9,367	3,516	12,565	12,622	1,685
Accounts payable and other current liabilities	(38,745)	(1,182)	(17,082)	(18,647)	866
Natural gas sales subject to refund	639	953	(31,645)	—	—
Current maturities on long-term debt	4,593	(4,576)	3,613	(7,775)	3,870
Federal and foreign income taxes	(14,575)	(3,108)	(12,970)	(5,345)	(826)
	<u>(8,912)</u>	<u>11,239</u>	<u>3,305</u>	<u>9,965</u>	<u>16,421</u>

Five-Year Summary

OTHER FINANCIAL DATA

Sales price of common stock (per share)

	1977	1976	1975	1974	1973
1st quarter — high	258	203	191¾	304	353
— low	185	159½	153	211½	289
2nd quarter — high	209	181	225	212	295½
— low	180	148	160½	165	213
3rd quarter — high	238	223	249	172⅞	260
— low	203	177½	165	134	201
4th quarter — high	265	241½	197¾	196	337
— low	196	202	160½	142	253

Dividends paid per quarter (per share of common stock)

1st quarter	.45	.45	.35	.35	.35
2nd quarter	.45	.45	.35	.35	.35
3rd quarter	.45	.45	.45	.35	.35
4th quarter	.55	.45	.45	.35	.35
Current ratio*	1.4:1	1.6:1	1.5:1	1.9:1	2.3:1

OPERATING DATA*

Liquid hydrocarbons — gross production (bbls. per day)

Crude oil					
United States	47,397	48,565	51,236	56,326	61,012
Canada	28,145	28,191	31,020	34,153	35,994
Other	170	184	200	190	218
	<u>75,712</u>	<u>76,940</u>	<u>82,456</u>	<u>90,669</u>	<u>97,224</u>
Natural gas liquids					
United States	12,287	10,760	10,585	11,985	12,078
Canada	5,652	5,944	5,995	5,734	4,696
	<u>17,939</u>	<u>16,704</u>	<u>16,580</u>	<u>17,719</u>	<u>16,774</u>

Natural gas — gross sales (Mcf per day)

United States	745,224	686,967	750,503	890,542	945,603
Canada	186,043	202,103	209,482	203,701	204,481
Other	85,337	86,892	82,808	77,997	63,262
	<u>1,016,604</u>	<u>975,962</u>	<u>1,042,793</u>	<u>1,172,240</u>	<u>1,213,346</u>

Sulfur — gross sales (long tons per day)

Canada	640	420	369	639	622
--------------	-----	-----	-----	-----	-----

Employees at year-end

Payroll and benefits (in thousands of dollars)	3,549	3,210	3,341	3,346	3,087
---	-------	-------	-------	-------	-------

	72,706	65,862	58,752	50,115	42,397
--	--------	--------	--------	--------	--------

Wells drilled

	Gross		Net		Gross		Net		Gross		Net		Gross		Net	
Exploratory																
Productive	56	24	73	36	54	21	57	17	29	12						
Abandoned	67	23	82	30	96	42	109	37	88	27						
Development																
Productive	270	81	298	98	283	77	251	56	173	64						
Abandoned	22	12	12	9	20	8	25	6	20	5						
	<u>415</u>	<u>140</u>	<u>465</u>	<u>173</u>	<u>453</u>	<u>148</u>	<u>442</u>	<u>116</u>	<u>310</u>	<u>108</u>						

* Includes 100% of Canadian Superior Oil Ltd.

THE SUPERIOR OIL COMPANY AND SUBSIDIARY COMPANIES

Supplemental Data (a)

at December 31, 1977 (including 100% of Canadian Superior)

OIL AND GAS RESERVES (b)

	OIL AND NATURAL GAS LIQUIDS		NATURAL GAS	
	in thousands of barrels		in millions of cubic feet	
	Proved Developed	Proved Undeveloped	Proved Developed	Proved Undeveloped
Net after royalty				
United States (b)	123,912	13,617	1,664,255	382,569
United Kingdom	510	—	146,216	—
Net including royalty				
Canada (c)	183,758	3,444	1,677,628	377,000
Other international	—	5,906	—	51,000
PRODUCING WELLS (d)	Gross	Net	Gross	Net
United States	5,627	1,244	1,038	439.0
Canada	3,930	353	1,352	259.0
United Kingdom	—	—	98	2.9
	<u>9,557</u>	<u>1,597</u>	<u>2,488</u>	<u>700.9</u>
WELLS IN PROGRESS	Gross	Net	Gross	Net
United States	63	29.4	11	4.9
Canada	4	.3	13	4.9
Other	1	.9	4	.3
	<u>68</u>	<u>30.6</u>	<u>28</u>	<u>10.1</u>
PRODUCING OIL AND GAS ACREAGE (thousands of acres)	Gross	Net		
United States	686	496		
Canada	1,085	644		
United Kingdom	175	39		
	<u>1,946</u>	<u>1,179</u>		
UNDEVELOPED OIL AND GAS ACREAGE (thousands of acres)	Gross	Net		
United States	1,881	1,267		
Canada	17,321	10,377		
Thailand	8,631	774		
Australia	8,031	1,205		
Arabian Gulf	5,003	656		
Papua New Guinea	3,734	744		
Bolivia	2,537	634		
Tunisia	1,215	195		
Other	10,829	2,304		
	<u>59,182</u>	<u>18,156</u>		

Notes:

- Proved developed reserves are proved reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are proved reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where a major expenditure is required for recompletion.
- Production of crude oil and condensate exceeded additions to reserves in 1977, but there was a 10.4% increase in combined oil and natural gas liquids reserves at year-end due to upward revisions in such reserves for years prior to 1977. Production of natural gas was less than additions to reserves in 1977, but revisions in gas reserves for years prior to 1977 caused a 4.5% decline in total gas reserves at year-end. The value of the increase in liquids reserves is somewhat greater than the value of the decrease in gas reserves.
- Provincial government royalties on Canadian production are determined by applying a graduated percentage scale to gross sales proceeds. Since a material distortion occurs when royalty rates computed in such a manner are applied to volumetric statistics, the Canadian reserve information presented represents the Company's interest in oil and gas reserves before deducting provincial royalties.
- Producing wells are designated as oil or gas on an individual well basis depending on the major product produced from such well. For purposes of this section, a well is defined as a single bore hole, regardless of the number of completions within such hole.



BOARD OF DIRECTORS

MARSH A. COOPER

*President, Falconbridge Nickel Mines Limited
Toronto, Canada*

ALLAN C. DURHAM

*Vice President and Secretary,
The Superior Oil Company*

R. B. FULTON

*President, McIntyre Mines Limited
Toronto, Canada*

F. O'NEIL GRIFFIN

*Chairman and Chief Executive Officer,
Mountain Banks Ltd., Denver, Colorado*

H. B. KECK

President, The Superior Oil Company

W. M. KECK, JR.

Investments

J. E. KOLB

Partner, Vinson & Elkins, Attorneys

ARNE R. NIELSEN

*President, Canadian Superior Oil Ltd.,
Calgary, Canada*

J. E. REID

*Senior Vice President,
The Superior Oil Company*

O. P. THOMAS

*Chairman of the Board,
The B. F. Goodrich Company
Akron, Ohio*

W. B. WAGNER, JR.

*Vice President and General Counsel,
The Superior Oil Company*

W. K. WOODBURN

*Senior Partner, Woodburn, Wedge,
Blakey, Folsom and Hug, Attorneys,
Reno, Nevada*

OFFICERS

H. B. KECK

President

J. E. REID

Senior Vice President

L. R. AYERS

Vice President

CHARLES L. BARNEY

Vice President

ALLAN C. DURHAM

Vice President and Secretary

H. R. HIRSCH

Vice President

THOMAS C. HOLT

Vice President

R. I. SCHRAMM

Vice President

W. B. WAGNER, JR.

Vice President and General Counsel

C. A. VAN DERBUR

Treasurer

J. J. BUGNO

Controller

EXECUTIVE OFFICES

First City National Bank Building
Houston, Texas 77002

STOCK EXCHANGE LISTINGS

COMMON STOCK

New York Stock Exchange
Pacific Coast Stock Exchange

DEBENTURES

New York Stock Exchange

TRANSFER AGENTS

CITIBANK, N.A.
111 Wall Street
New York, New York 10043

UNION BANK
3810 Wilshire Boulevard
Eleventh Floor
Los Angeles, California 90010

AUDITORS

ARTHUR ANDERSEN & CO.
Houston, Texas 77002

REGISTRARS

COMMON STOCK
MORGAN GUARANTY TRUST COMPANY
30 West Broadway
New York, New York 10015

UNITED CALIFORNIA BANK
707 Wilshire Boulevard
Los Angeles, California 90017

DEBENTURES

CITIBANK, N.A.
111 Wall Street
New York, New York 10043

